



## INTERNAL AUDIT DEPARTMENT

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Audit No. 2425

February 5, 2025

To: Chair Doug Chaffee, Supervisor, 4th District  
Vice Chair Supervisor Katrina Foley, 5th District  
Supervisor Janet Nguyen, 1st District  
Supervisor Vicente Sarmiento, 2nd District  
Supervisor Donald P. Wagner, 3rd District

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

Subject: Risk Assessment and Review of All Orange County American Rescue Plan Act Funded Contracts and Expenditures (September 24, 2024, Board Agenda Item S37E)

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On September 24, 2024, the Board of Supervisors (Board) approved a four-part motion, as part of agenda item 37-E related to contract oversight reform (Attachment C). The first part of the motion directs the Internal Audit Department to conduct a risk assessment of all County of Orange (County) American Rescue Plan Act (ARPA) funded contracts within 90 days to ensure all contract audit and monitoring requirements are being met within all County departments.

On December 16, 2024, we requested an extension from the Board (Attachment C) to fully address the intent of the motion of reviewing all contracts and expenditures funded by COVID-19 relief programs, including ARPA and the Coronavirus Aid, Relief, and Economic Security Act (CARES). We indicated we would review all ARPA funded contracts and expenditures in phases and issue our first report by January 31, 2025. In addition, we would contract with an external audit firm to review CARES as part of the forensic audit directed by the Board at their December 3, 2024 meeting, Item 37 (Attachment D).

We have completed the first phase of our ARPA review. We noted that federal subaward audit and monitoring requirements did not apply to the County's ARPA funds claimed under the Revenue Replacement category. In addition, the Board, in the interest of expediting aid to those in need during the emergency declaration, waived the County procurement requirements for ARPA contracts, and instead authorized each Board member to create programs, select vendors and set contract terms and dollar amounts, as allowed by federal guidance for ARPA funding. Departments, in keeping with the Board's direction, also followed the federal guidance in the creation and administration of contracts and grants. Departments also indicated this was done in close coordination with County Counsel and the Auditor-Controller (A-C). Despite these circumstances, we noted departments strived to perform oversight of ARPA funded contracts to ensure entities used funds appropriately, in accordance with their contracts. Such oversight was critical to identifying misconduct involving the former District 1 Supervisor.

Overall, for all 58 high risk expenditures (31 contracts, 17 beneficiary agreements/memoranda of understanding, five gift cards, and five other expenditures) reviewed, totaling \$203.4 million (78% of the County's \$260.4 million in ARPA expenditures to outside entities), the County complied

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with all federal subrecipient monitoring and beneficiary rules. In addition, for the 31 contracts reviewed, the County had adequate monitoring to reasonably assure services were being provided and/or funds were being spent properly, in accordance with the contract. However, we noted some opportunities for future improvement. For example, the County Executive Office (CEO) should:

- Consider enhancing contract monitoring in the Subrecipient Monitoring Policy, which currently requires risk assessments to establish appropriate monitoring levels and activities for federally funded contracts, by requiring a comprehensive risk assessment regardless of funding source or funding source requirements for County contracts based on established criteria, such as the dollar threshold and type of contract.
- Consider establishing formal oversight requirements in County policy for beneficiary agreements and memoranda of understanding, including documentation requirements to support oversight activities, to provide assurance that entities use funds in accordance with their agreement.
- Evaluate improving contract monitoring and oversight by enhancing their eProcurement solution (OpenGov) or working with the A-C to leverage the County's new Enterprise Resource Planning system to ensure the County has a robust contract management system with tracking and reporting functionalities as described herein.

These enhancements will strengthen County oversight to ensure entities use funds properly and in accordance with their contract/agreement. They also align with Board reforms designed to improve the integrity and efficiency of the way the County manages funds and awards contracts (Attachment C).

Details of our results and recommendations immediately follow this letter. Additional information including background and our objectives, scope, and methodology is included in Attachment B.

The Departments' response, Attachment E, indicates they partially concur or strongly disagree with our observations and have already implemented some of our recommendations. Specifically, for two observations the CEO's response indicates they strongly disagree because the area was outside of the scope of our review. However, the Internal Audit Department performs all audit engagements according to professional standards issued by the Institute of Internal Auditor (IIA) Global Standards (Standards). According to the Standards, the objectives and scope for assurance engagements are determined primarily by the internal auditors and the scope should be broad enough to achieve the engagement objectives. The Standards indicate we must have the flexibility to make changes to the objectives and scope of any assurance engagement when the audit work identifies the need to do so, such as when we determine relevant risks should be addressed. Lastly, the Standards indicate that we should consider whether requests from management for items to be excluded from the scope constitutes a scope limitation. In this case, the auditee did not restrict any access to information or documentation and we were able to conduct our review and issue an audit report that includes all our observations.

We appreciate the courtesy extended to us by County department personnel during our assessment, including the CEO, Health Care Agency (HCA), OC Community Resources (OCCR), and Auditor-Controller. If you have any questions regarding our audit, please contact me at (714) 834-5442 or Deputy Director Jose Olivo at (714) 834-5509.



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## Attachments

### Other recipients of this report:

- Members, Audit Oversight Committee
- County Executive Office Distribution
- Health Care Agency Distribution
- OC Community Resources Distribution
- Auditor-Controller Distribution
- County Counsel Distribution
- Foreperson, Grand Jury
- Robin Stieler, Clerk of the Board of Supervisors
- Eide Bailly LLP, County External Auditor



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## RISK ASSESSMENT SUMMARY

## Risk Assessment of American Rescue Plan Act (ARPA) Funded Contracts

We conducted a risk assessment of all of the County’s 347 ARPA funded contracts and payments to outside entities, totaling \$254.2 million, to determine whether County departments are meeting contract audit and monitoring requirements. This excludes approximately \$6.2 million in ARPA expenditures for contracts and direct payments under \$50,000. We obtained a listing of these additional expenditures from the County Executive Office (CEO) subsequent to our fieldwork and will report back on our review in a future phase.

Also, the list of 347 ARPA expenditures we reviewed included instances where a single expenditure tied to one contract and cases where multiple expenditures tied to a single contract. In addition, expenditures did not always tie to a contract for services, such as payments for gift card purchases and payments to beneficiaries as part of an agreement. However, we assessed risk on all 347 expenditures to determine whether County oversight measures were in place.

We noted that 11 County departments were responsible for oversight of all ARPA expenditures. Chart 1 below is a summary of the 347 ARPA expenditures by department.

Chart 1  
ARPA Expenditures Summary

Department	Number of Expenditures	Claimed Amount
Auditor-Controller	1	83,660
Assessor	1	10,441
County Executive Office	148	204,783,942
Child Support Services	4	324,286
Health Care Agency	58	18,438,207
John Wayne Airport	3	105,848
OC Community Resources	110	27,091,540
OC Public Works	11	2,774,680
Public Defender	6	210,718
Probation	3	119,223
Social Services Agency	2	251,977
	347	254,194,523

We excluded from our risk assessment, four payments on two ARPA funded contracts (i.e., Viet America Society and Hand to Hand Relief Organization), totaling \$8.2 million, that were allegedly implicated as part of the misconduct involving the former District 1 Supervisor, Andrew Do. We identified higher risk with the County’s three major departments, including CEO, HCA, and OCCR, who had the larger ARPA expenditures.



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We selected a sample of 58 expenditures at these departments, totaling \$203.4 million (78% of the \$260.4 million (\$254.2 million + \$6.2 million) in ARPA expenditures to outside entities), as noted in Chart 2 below, and reported the results of our review in Observations No. 1 – 4 of this report.

Chart 2

ARPA Expenditures Sampled

ARPA Expenditure Type	Sample Size	Total Value (in millions)	Observation No.
Contracts	31	\$27.9	1
Beneficiary Agreements/Memoranda of Understanding	17	\$53.5	2
Gift Cards	5	\$0.9	3
Other Expenditures	5	121.1	4
	58	\$203.4	

## OBSERVATION No. 1 Contract Monitoring

Thirty-one of the expenditures we sampled, totaling approximately \$27.9 million, were contracts the County established with entities, such as cities and vendors, for various services and projects using ARPA funds that the County received under the State and Local Fiscal Recovery Funds' Revenue Replacement category. We noted that certain federal subaward audit and monitoring requirements of subrecipients, such as the Single Audit Act of 1984, did not apply to this fund category due to the United States Department of the Treasury's Final Rule (See Background section for more information). CEO also indicated they and County departments worked closely with the Auditor-Controller and County Counsel for interpretation and application of the federal guidance, and also obtained guidance and clarification from the Government Finance Officers Association who had a direct line to the Treasury. As a result, we noted the County complied with federal subrecipient monitoring rules for all 31 contracts reviewed.

The Board of Supervisors (Board), in the interest of expediting aid to those in need during the emergency declaration, waived the Contract Policy Manual (CPM) procurement requirements for ARPA contracts, and instead authorized each Board member to create programs, select vendors and set contract terms and dollar amounts, as allowed by federal guidance for ARPA funding. Departments, in keeping with the



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Board's direction, also followed the federal guidance in the creation and administration of contracts and grants. Departments also indicated this was done in close coordination with County Counsel and the Auditor-Controller. In addition, the CPM had vague oversight requirements, which was limited to completing contractor performance evaluations for service contracts and ensuring funding requirements were satisfied for human services contracts. Despite these circumstances, the County had practices to perform oversight of ARPA funded contracts, including compliance with the CPM, to ensure entities used funds appropriately, which was critical to identifying the former District 1 Supervisor's misconduct.

We noted that all 31 contracts we sampled had adequate contract monitoring to reasonably ensure services were being provided and/or funds were being spent properly, in accordance with the contract and CPM, as applicable. Departments maintained proper documentation to support staff's monitoring activities, including compliance monitoring review reports, progress/expense and performance reports they obtained from recipients, program evaluations, virtual site visit reports, minutes to document provider meetings, and documented reviews and approvals of invoices prior to payment.

In addition, one department utilized a third party Certified Public Accounting firm to perform annual fiscal monitoring. Furthermore, some contracts were established as one-time grant payments and did not require ongoing monitoring, such as program evaluations or site visits, but required recipients to submit certified progress/expense reports identifying the expenses paid and demonstrate how recipients used the grant amount consistent with their contract requirements. Departments monitored to ensure these contract provisions were followed.

See Attachment A for a list of the contracts reviewed.

During our review, we also noted a \$2 million Board-directed contract with Abound Food Care, a partner agency of the OC Hunger Alliance, to purchase food, water, and storage equipment to aid in the event of a disaster or emergency, such as that experienced with the COVID-19 emergency. While we noted the department monitored to ensure the required expense reports were submitted to the County per the agreement's provisions, we also noted payments made to Perfume River Restaurant, a subcontractor involved in the former District 1's misconduct, as well as potential related party transactions made to certain subcontractors. As a result, we referred this vendor to the District Attorney and County Counsel for further review.

Also, as previously mentioned, the CPM had vague monitoring requirements at the time ARPA contracts were in place and the practice was limited to completing contractor performance evaluations for service contracts and ensuring funding requirements were satisfied for human services contracts. However, since then, on September 24, 2024, the Board approved the revised CPM which enhanced monitoring requirements. This includes adding a dedicated section that defines contractor monitoring and more robust monitoring requirements,



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	<p>including ensuring adherence to all contract requirements and expectations for all service contracts, and where applicable, that all funding requirements are satisfied. The CEO also indicated they are working to train all impacted employees on these requirements.</p> <p>However, we also noted the County could benefit from strengthening contract monitoring policies in the Subrecipient Monitoring Policy (SMP). Specifically, the SMP requires departments to perform monitoring risk assessments to establish appropriate monitoring levels and activities. However, the SMP appears to indicate the requirement only applies to federally funded subrecipient contracts. The County should strengthen the SMP to require a comprehensive risk assessment regardless of funding source or funding source requirements for County contracts based on established criteria, such as the dollar threshold and type of contract.</p>
<b>RISK</b>	<p>Vague, or the lack of, monitoring risk assessment requirements in County policy increases the risk of not developing appropriate contract monitoring plans and establishing clear direction for everyone involved in ensuring contractors provide services and/or spend funds properly.</p>
<b>RECOMMENDATION</b>	<p>CEO consider strengthening the County’s Subrecipient Monitoring Policy, which currently requires risk assessments to establish appropriate fiscal, program, and administrative monitoring levels and activities for federally funded contracts, by requiring a comprehensive risk assessment regardless of funding source or funding source requirements for County contracts based on established criteria, such as the dollar threshold and type of contract.</p>
<b>MANAGEMENT RESPONSE</b>	<p><b>CEO Response:</b></p> <p>Partially agree with this Observation. The County has already taken steps and strengthened controls to ensure entities/contractors/vendors are in good standing prior to issuing contracts. The CPM was updated in September 2024, which established threshold criteria required prior to contract issuance such as verifying that entities/contractors/vendors are in good standing and/or registered with the California Secretary of State, Attorney General, Dun &amp; Bradstreet, and System for Award Management (SAM) at SAM.gov. Please refer to CPM Section §3.1-124 (3), Contract Monitoring. Additionally in January 2025, all County Deputy Purchasing Agents (DPAs) received training presented by the CPO on Uniform Guidance requirements, County Subrecipient Monitoring Policy (SMP), Due Diligence including sub-contractors, Single Audit requirements, Pre Award Risk Assessment and Annual Risk Assessments for all Human Services contracts, Fiscal Monitoring (including annual Fiscal Year End [FYE] closeout), Sanction Screening requirements, Invoice Review and Approval, Annual Site Visits, Annual Contractor Performance Evaluations, and the Notice to Cure/Corrective Action Plan process. Furthermore, CEO will revisit the SMP to ensure it is consistent with the September 2024 CPM updates, the Procurement Procedures Manual and operational procedures.</p>



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## **IAD Comment:**

As noted in our Observation, we recognize the Board approved the revised CPM, which enhanced monitoring requirements. However, the CPM does not include guidance related to risk assessments. The CEO should consider strengthening the County's Subrecipient Monitoring Policy, by requiring a comprehensive risk assessment regardless of funding source or funding source requirements, as noted in our recommendation.

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## **OBSERVATION NO. 2 Beneficiary Agreements/Memoranda of Understanding**

Seventeen of the ARPA expenditures we sampled, totaling \$53.5 million, were payments on 15 agreements, including 14 beneficiary agreements and one Memorandum of Understanding (MOU). The County provided ARPA funds to entities, such as cities and other non-profits, to respond to the negative economic impact of the COVID-19 emergency and established agreements with these entities for the proper use of funds. We noted federal monitoring requirements did not apply to these agreements, and the County also did not have formal policies that require oversight (e.g., CPM requirements). As a result, the County complied with federal and County oversight rules for all 15 agreements reviewed.

Despite the lack of federal and formal County oversight requirements, we noted the County had practices to help ensure entities used funds properly. For example, departments included descriptions on the proper use of funds in all 15 agreements in our sample, and 13 of them also included records maintenance and inspection clauses to require entities to retain relevant records and allow the County to examine those records or require the entity to provide supporting documentation to substantiate expenses. In addition, we noted instances where the County inquired with beneficiaries on their progress and use of awarded funds.

We also noted four (27%) agreements, totaling \$42.3 million, had formal oversight activities to provide assurance that entities used funds in accordance with their agreement. Specifically, departments performed compliance monitoring reviews and third-party fiscal monitoring reviews of three of these entities and obtained and reviewed certified expense reports for one entity.

Eleven (73%) agreements, totaling \$11.2 million, did not have formal oversight activities to provide assurance on the use of funds. As previously mentioned, there was no federal or formal County oversight requirements. In addition, these beneficiary agreements are not a normal County practice and were established specifically due to ARPA funding. However, the County would benefit from having a policy in place to address any similar circumstances in the future. As a result, the County should consider establishing oversight requirements to ensure entities use funds in accordance with their agreement, including

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	<p>reporting and documentation requirements to support oversight activities.</p> <p>During our review of these agreements, we also noted one beneficiary agreement, totaling \$25,000, with DTN Tech for economic support to small businesses that was directed by the former District 1 Supervisor. Although the County had required criteria for eligibility, such as a small business with fewer than 50 employees, at least a 25% decline in revenues, etc., there was no documentation to support DTN Tech met the criteria. In terms of declines in revenues, although we did not audit DTN or review their eligibility, we noted that former Supervisor Michelle Steel awarded \$1.2 million in Coronavirus Aid, Relief, and Economic Security Act (CARES) funds to DTN Tech to provide meals to needy seniors. We referred this agreement to the District Attorney and County Counsel for further review.</p> <p>See Attachment A for a list of the beneficiary agreements/MOUs reviewed.</p>
<b>RISK</b>	<p>The lack of oversight of beneficiary agreements and MOUs increases the risk of entities not using funds to achieve intended outcomes, and prevents the County from identifying these instances.</p> <p>We will share the results of our review, including these observations, with the external auditor who will be conducting a more in-depth forensic audit, as directed by the Board in the December 3, 2024 meeting (Item 37).</p>
<b>RECOMMENDATION</b>	<p>CEO consider establishing formal oversight requirements in County policy for beneficiary agreements and MOUs, including documentation requirements to support oversight activities, to provide assurance that entities use funds in accordance with their agreement.</p>
<b>MANAGEMENT RESPONSE</b>	<p><b>CEO Response:</b></p> <p>Recommendation was implemented. The County has already taken steps and implemented ways to strengthen contract monitoring. Beneficiary agreements include reporting and documentation requirements to support oversight activities, to ensure entities' use of funds are in accordance with their agreement. Please refer to Section §3.1-124, Contract Monitoring, in the September 2024 CPM update. MOU monitoring requirements are tailored based on the type of services provided, if/when the County can quantify such services. Additionally, MOU monitoring requirements are usually dictated by the relationship between the entities that enter into the MOU. As warranted, MOUs include reporting and documentation requirements to support oversight activities, to ensure entities' use of funds are in accordance with their MOU. The CPM was updated in September 2024, which established policy for entering into MOUs, please refer to Section §3.8 of the CPM. Furthermore, CEO will revisit Section §3.8, MOU, of the CPM to address oversight measures, as warranted by the relationship between the entities that enter into the MOU.</p>



**IAD Comment:**

The CEO's response indicates they will revisit the MOU section of the CPM to address oversight measures. Also, while they indicate beneficiary agreement oversight is addressed in the CPM, we did not see any beneficiary agreement oversight requirements. The CEO should consider establishing formal oversight requirements in County policy for beneficiary agreements, as noted in our recommendation.

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**OBSERVATION NO. 3 Gift Card Expenditures**

Five of the ARPA expenditures we sampled, totaling \$866,580, were to purchase gift cards to respond to the COVID-19 emergency. We reviewed whether departments appropriately managed the distribution of the gift cards in our sample. This includes whether they had a mechanism and documentation for their distribution, such as gift card logs with card number, value, and date of distribution. These were practices that departments indicated they generally followed during the distribution, and which were subsequently formalized in the County's Interim Cash Alternative Procedure (ICAP) in July 2023.

We noted Board offices directed County departments to use Board-approved discretionary funds for the gift cards in our sample. We also noted that departments had adequate documentation to account for all \$866,580 in gift cards. Specifically, departments provided logs that included an inventory of each gift card's serial number and value to account for all gift cards purchased, or receipts to support the purchase. They also maintained logs to support the distribution of gift cards, which included information, such as distribution dates and recipient information. Some gift cards also had corresponding distribution forms that each individual recipient completed with their name and signature attesting to meeting eligibility requirements.

**Additional Observations**

- We did not perform a forensic analysis on department's gift card logs to assess their authenticity, as it was not within the scope of this review. While we noted some of the logs and forms had recipient's signatures to help confirm receipt, we also noted logs with data entry errors (e.g., erroneous zip codes) and potential duplicates, and/or that were completed using Excel worksheets, which increases the risk of ineligible recipients and other improprieties. The County should strengthen controls in the ICAP to help mitigate these risks.

For example, the ICAP requires gift card logs to include card number, value, and date of distribution. Additional controls could include:

- Requiring each individual gift card recipient's name and signature that attests to meeting eligibility requirements.
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	<p>This is a requirement in HCA's Gift Card Policy, and as previously mentioned, we noted some gift cards also had distribution forms with this information.</p> <ul style="list-style-type: none"> <li>○ Utilizing electronic tools or applications that can provide more accurate tracking and accountability, including the use of electronic signatures.</li> </ul> <p>The ICAP was established as an interim policy that appears to have expired as of December 2023. While the County has included certain cash alternative controls in other County policies, such as the CPM and Procurement Procedures Manual, it does not include the controls/requirements in the ICAP.</p>
<p><b>RISK</b></p>	<p>Weak controls over gift cards and their distribution can lead to their loss or theft, and prevents the County from ensuring gift cards are used to achieve intended outcomes.</p> <p>We will also share the results of our review with the external auditor who will be conducting a more in-depth forensic audit, as directed by the Board in the December 3, 2024 meeting (Item 37).</p>
<p><b>RECOMMENDATIONS</b></p>	<p>A. CEO consider strengthening controls in the Interim Cash Alternative Procedure to help mitigate risks of ineligible gift card recipients and other related improprieties, such as by requiring gift card recipient's name and signature that attest to meeting eligibility requirements and utilizing electronic tools or applications that can provide more accurate tracking and accountability, including the use of digital signatures.</p> <p>B. CEO consider formalizing the Interim Cash Alternative Procedure into a permanent County policy or incorporating the controls/requirements from the Interim Cash Alternative Procedure into other County policies.</p>
<p><b>MANAGEMENT RESPONSE</b></p>	<p><b>CEO Response:</b></p> <p>Partially agree with this Observation. The County has already implemented this Observation and formalized policies and procedures related to Cash Alternatives in the September 2024 CPM update. Please refer to Section §3.1-122 Cash Alternative Purchases. Furthermore, the Procurement Procedures Manual includes the controls/requirements from the ICAP (§3.4-105 Cash Alternative (2) d) and the requirements of documenting card number, value, and transfer of accountability. Additionally, some departments, such as the Health Care Agency, follow a departmental Gift Card Policy and Procedure, which includes the purchase of gift cards, security and maintenance of gift cards, detailed tracking logs, and transfer of accountability.</p> <p><b>IAD Comment:</b></p> <p>The CEO's response indicates they formalized cash alternative requirements in the September 2024 CPM and the Procurement Procedures Manual (PPM). Our observations and recommendations considered the County's cash alternative requirements that were in</p>



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place at the time of our review (i.e., the September 2024 CPM and August 2024 PPM). We noted that the CEO updated the Procurement Procedures Manual in December 2024 to incorporate the controls/requirements from the Interim Cash Alternative Procedure and also require gift card recipients name, which aligns with our recommendations. The CEO should consider strengthening controls further, such as by requiring gift card recipient's signature that attest to meeting eligibility requirements and utilizing electronic tools or applications that can provide more accurate tracking and accountability, including the use of digital signatures, also as noted in our recommendation.

## OBSERVATION No. 4 Other ARPA Expenditures

Five of the ARPA expenditures we sampled, totaling \$121 million, were payments to the State of California for trial court operations, loan agreements, and funding for a landlord incentive program administered by the County. We noted departments adequately reviewed and approved expenditures prior to disbursement, and have additional oversight/reviews planned, as applicable. Specifically:

- Two payments approved by the County, totaling \$118.3 million, were "maintenance of effort" payments to the State of California for Trial Court Funding in fiscal years (FY) 2021-22 and 22-23 pursuant to Government Code section 77201.3. These expenditures cover the County's share of the State's trial court operations costs, are incurred annually, and complied with ARPA Revenue Replacement guidance.
- Two payments, totaling \$2.5 million, were loan agreements that require annual County reviews and the repayment of funds at a future date. One loan agreement of \$1 million was used for the Riviera Motel Project, which completed construction in March 2024, and has the first annual County inspection and file review planned for 2025, in accordance with the agreement.

The other loan agreement, totaling \$1.5 million, was used for the WISEPlace Permanent Supportive Housing project. The project is estimated to be completed in the year 2025, with the first annual County inspection and file review to be completed after one year of operation, in accordance with the agreement.

- One payment of approximately \$83,000 was to OCCR to administer the landlord incentive program. OCCR is required to maintain applications from individuals to justify related payments and support the proper use of funds, and we reviewed sample documents to confirm staff adhered to this process.

**RISK** Not applicable

**RECOMMENDATION** Not applicable



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## MANAGEMENT RESPONSE

Not applicable

## OBSERVATION No. 5 Sole Source Procurement

In March and November 2020, the Board approved resolutions during the COVID-19 emergency allowing County departments to establish contracts using non-competitive contracting processes (e.g., sole source) to obtain necessary goods and services. At the April 27, 2021 Board meeting, the Board repealed emergency procurement practices, essentially returning to standard contracting processes in the County's CPM.

However, the federal COVID-19 public health emergency declaration, was also in place since January 31, 2020 and did not expire until May 11, 2023. In addition, as part of item 54, at the same April 27, 2021 Board meeting, the former District 1 Supervisor Andrew Do verbally made a motion (that was approved by the Board) to amend the item to allow the County to continue to contract with existing vendors who were contracted with prior to April 27, 2021, when the County was under an emergency declaration and was not requiring competitive bidding. This verbal motion is what authorized the County to continue to contract with Viet America Society, who as previously mentioned, was one of the organizations allegedly implicated in the misconduct involving the former District 1 Supervisor.

Out of the 31 contracts we sampled in Observation No. 1, six relate to three contracts that transitioned between departments (i.e., HCA to CEO), and as a result, there were only 28 unique contracts. Of these 28 contracts, we noted 26 were established or amended after April 27, 2021, when the Board repealed the emergency procurement practices and the County returned to standard contracting processes in the CPM. Specifically, of these 26 contracts, eight (31%) were established or amended based on a competitive solicitation through a request for proposal, invitation for bid, etc. For example, this includes extending the contract period and/or increasing contract amounts of originally competitively bid contracts without re-bidding, as allowed by the CPM.

The remaining 18 contracts (69%) were justified as sole source based on allowable criteria. For example, this includes:

- The April 27, 2021 motion under item 54 that allocated discretionary funding between the supervisorial districts.
- The verbal motion made by the former District 1 Supervisor, which allows the County to continue to contract with existing vendors who were contracted with prior to April 27, 2021, when the County was under an emergency declaration and was not requiring competitive bidding.



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- CPM section 3.3-122, which allows for sole source in the event of an emergency. Although, as mentioned above, the Board repealed the emergency declaration prior to this and this justification contradicts the Board’s declaration, the County departments’ justifications for the emergencies, as allowed by the CPM, are appropriately documented.
- CPM section 4.5-102(3), which allows County departments to issue contracts without competitive bidding when the contractor has particular expertise through past performance which has been satisfactory and the County would be adversely affected by bringing in another vendor.

The CEO indicated that this provision in the CPM is intended for certain types of procurement where not contracting with the incumbent contractor could substantially harm the County financially or through decreased service levels to the public and needs to be appropriately justified as such. We noted that while the CPM requires departments to describe the adverse impact to the County in their justification, it does not have specific criteria or additional guidance for defining substantial financial harm or decreased service levels. The CEO should strengthen the CPM by including this additional criteria/guidance.

See Attachment A for a list of contracts reviewed.

Also note that the Board has already taken action to strengthen sole source contracting as it relates to Board-requested contracts. Specifically, in September 2024, the Board approved revisions to the CPM which was amended to require Board approval for all contracts for goods and services that were not competitively bid and were requested, directed, or otherwise initiated by an individual Board member. As previously mentioned, we also noted the CEO can further strengthen the CPM by including additional criteria/guidance in section 4.5-102(3).

<b>RISK</b>	Vague CPM rules can lead to confusion, inconsistencies, and/or abuse of contracting practices, which increases the risk for inappropriate sole source contracts.
<b>RECOMMENDATION</b>	CEO consider strengthening Contract Policy Manual section 4.5-102(3) by including specific criteria or additional guidance for describing the adverse impact to the County and ensure these exceptions are adequately justified.
Management Response	<p><b>CEO Response:</b></p> <p>Strongly disagree with this Observation. This Observation is outside of the scope of the audit approved via item S37E from the September 24, 2024 Board meeting. Observation No. 5 contradicts the Exclusions noted in the audit report. Additionally, per the ARPA guidance, the procurement standards set forth in the Uniform Guidance at 2 CFR 200.317 through 2 CFR 200.327 are not applicable requirements to recipients’ use of funds in the revenue loss eligible use category. Furthermore, CEO will revisit Section 4.5, Sole Source Requests of the</p>



CPM to update and clarify guidance on sole source justification, as needed.

**IAD Comment:**

The CEO's response indicates they strongly disagree with our Observation. Specifically, the response indicates sole source is outside the scope of our audit. As noted on page 1 of this report, the Standards indicate we must have the flexibility to make changes and/or expand the scope as needed. In addition, as our report notes, sole source contracts allowed the County to continue to contract with Viet America Society, who as previously mentioned, was one of the organizations allegedly implicated in the misconduct involving the former District 1 Supervisor.

Despite the CEO's strong disagreement, the CEO's response also indicates they will revisit the CPM to update and clarify guidance on sole source justification, as recommended.

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**OBSERVATION NO. 6 Centralized Contract Management System**

During our risk assessment and review of departments' contract monitoring processes and controls, we noted the County does not have standardized methods for conducting, tracking, and reporting contract monitoring activities. Specifically, departments utilize various templates and methods to conduct contract monitoring risk assessments and program evaluations that are not always consistent across the County and do not always capture important monitoring activity. For example, we noted instances where departments used meeting minutes to document discussions between the County and contracted providers regarding contract compliance, including compliance with scope of work, budget, and expense reporting. While useful and indicative of monitoring, resolution to performance issues may not always be documented or tracked as this process is not formalized.

Furthermore, the CEO indicated that it has implemented an eProcurement solution (OpenGov), which includes automated contractor performance evaluation capability. The County could benefit from further standardizing contract monitoring processes and significantly improve contract oversight, transparency, and accountability by leveraging OpenGov. The system should standardize and enhance the contract monitoring of the County's entire contract population, estimated at over 4,100 active contracts totaling \$8.7 billion as of January 6, 2025. For example, a robust contract management system would allow departments to:

- Conduct fiscal, program, and administrative contract monitoring based on standardized best practices and/or funding source requirements, such as Single Audit requirements for federal funds.
  - Track the results and produce ad-hoc reports of all contract monitoring, including results of County, State, and federal audits,
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	<p>and the progress in addressing issues noted, such as resolving questioned costs and non-compliance, and recovering overpayments. During our review, we noted departments were not always formally documenting their reviews of Single Audit reports and ensuring corrective action was taken to address areas of non-compliance.</p> <ul style="list-style-type: none"> <li>• Report on contractor performance to key stakeholders, including patterns of non-compliance, notices to cure, and debarment status, which aligns with the Board’s contracting reforms passed as part of item 37-E at the September 24, 2024 meeting (Attachment C).</li> </ul> <p>The Auditor-Controller’s (A-C) office is currently going through an RFP process to procure a vendor to implement a new Enterprise Resource Planning (ERP) system for the County.</p> <p>As such, this creates an opportunity for the County to leverage the technology and implement a contract management system in case OpenGov does not have the tracking, reporting, and functionality as discussed above.</p>
<b>RISK</b>	<p>The absence of a robust centralized Contract Management System to standardize contract oversight increases the risk for inconsistent and insufficient contract oversight, which can lead to poor contractor performance.</p>
<b>RECOMMENDATION</b>	<p>CEO evaluate enhancing OpenGov or working with the Auditor-Controller to leverage the County’s new Enterprise Resource Planning system to ensure the County has a robust contract management system with tracking and reporting functionalities as described above.</p>
<b>MANAGEMENT RESPONSE</b>	<p><b>CEO Response:</b></p> <p>Strongly disagree with this Observation. This Observation is outside of the scope of the audit approved via item S37E from the September 24, 2024 Board meeting. Observation No. 6 contradicts the Exclusions noted in the audit the report. Additionally, CPO has implemented a centralized contract management system through OpenGov, which includes an automated contractor performance evaluation capability. CPO continues to enhance the capabilities of OpenGov and will look to further enhance as recommended, where feasible. Furthermore, as of 2022, the CPO implemented a robust DPA training program and increased the yearly required training hours from 10 to 15. Goals of the training program included standardizing contract monitoring, implementation of industry wide best practices, and the implementation of a Procurement Professionals Program. Also, in January 2025, all County DPAs received training presented by the CPO on Uniform Guidance requirements, County Subrecipient Monitoring Policy, Due Diligence including sub-contractors, Single Audit requirements, Pre Award Risk Assessment and Annual Risk Assessments for all Human Services contracts, Fiscal Monitoring (including annual FYE closeout), Sanction Screening requirements, Invoice Review and Approval, Annual</p>





# INTERNAL AUDIT DEPARTMENT

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Site Visits, Annual Contractor Performance Evaluations, and the Notice to Cure/Corrective Action Plan process.

Additionally, the Auditor-Controller is coordinating the process for the new ERP system which already includes the integration of Procurement, Grant Management and Assets Management in the modernization of all systems. The ERP RFP with this concept was approved by the Board of Supervisors in February 2024.

Due to the current status and progress of the ERP RFP, the recommendation on this Observation may not be feasible.

**IAD Comment:**

The CEO's response indicates they strongly disagree with our Observation. Specifically, the response indicates our centralized contract monitoring system observation is outside the scope of our audit. As noted on page 1 of this report, auditing standards allow the IAD the flexibility to modify and/or expand the scope as needed. In addition, as our report notes, the County does not have standardized methods for conducting, tracking, and reporting contract monitoring activities.

In addition, the response indicates that OpenGov includes an automated contractor performance evaluation capability, and that the Auditor-Controller is working to integrate procurement and grant management into the new ERP system. We encourage the CEO to continue exploring the feasibility of a robust contract monitoring system for conducting, tracking, and reporting contract monitoring activities, as recommended.

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**OBSERVATION NO. 7 Board Discretionary Spending Policy**

The Board voted unanimously to implement various contracting reforms during their September 24, 2024 meeting, to help restore public trust in County governance and the Board. This included directing the CEO to create a policy overseeing Board discretionary contracts, reviewing contracts for familiar or business relationships that require disclosure or recusal, obtaining Board approval for Board discretionary funded contracts, and reporting contract compliance issues to the Board.

During our review we noted the CEO established informal policies outlining expectations and procedures for administering the Board Discretionary Program (Program) during ARPA. The informal policies were to help ensure proper authority was established to enter contracts and purchase directed items and that spending was in line with applicable federal guidance and County policies at the time. While we acknowledge the Program was established specifically due to ARPA funding and used as a mechanism to expedite the distribution of resources to the public in need during the COVID-19 emergency, we noted additional risks with Board discretionary spending. For example, we noted there was no adequate support to justify how funds were distributed to arts-related small businesses and non-profit organizations,

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# INTERNAL AUDIT DEPARTMENT

	<p>such as the agreement with DTN Tech (as noted in Observation 2). We also noted inconsistencies in the administration of specific programs that were directed by the Board, such as the Meal Gap program. Specifically, some Board offices distributed gift cards the County purchased, while others contracted with an outside entity to purchase and distribute gift cards or actual meals.</p> <p>The County has since addressed these risks. Specifically, Board discretionary spending is now governed by various existing or newly established policies, including CPM's procurement requirements and compliance requirements for Board-directed agreements with community and nonprofit organizations that promotes accountability and transparency. For example, the CPM requires the Board to disclose planned and actual costs of the program that the district discretionary funds cover, spending timeline of those funds, purpose of program funding, eligibility requirements to receive funding, and total dollars awarded to the entity that is contracted with the county.</p>
<b>RISK</b>	Not applicable
<b>RECOMMENDATION</b>	Not applicable
<b>MANAGEMENT RESPONSE</b>	Not applicable

<b>AUDIT TEAM</b>	<p>Jose Olivo, CIA, CISA          Gianne Morgan, CIA, CISA          Alejandra Luna          Daniel Ortiz, CPA          Gabriela Cabrera, CIA          Mary Ann Cosep          Tina Dinh</p>	<p>Deputy Director          Senior Audit Manager          Lead Audit Manager          Audit Manager          Administrative Services Manager          Senior Auditor          Senior Auditor</p>
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# INTERNAL AUDIT DEPARTMENT

## ATTACHMENT A: ARPA FUNDED CONTRACTS AND EXPENDITURES SAMPLED

Sample #	Expenditure ID	Vendor	Claimed Amount	Payment Description	Notes
CEO-2	MA01722011890	THE ILLUMINATION FOUNDATION	3,690,708	Temporary Isolation Shelter Services	1
CEO-3	MA01722011909	PATH PEOPLE ASSISTING THE HOMELESS	962,622	Rapid Rehousing Services	
CEO-4	MA01722011899	HUMAN OPTIONS INC	200,770	Emergency Housing Voucher Support Services	1
CEO-5	MA01721010979	BEVERLY BOY PRODUCTIONS INC	53,650	Video Production Services	1
CEO-6	CT01722010625	MICHAEL F HUNN	47,258	Behavioral Health Consultant Services	
CEO-10	GAX01723000877	CHARITABLE VENTURES OF ORANGE COUNTY	1,500,000	District Discretionary (DD) - D5 (Bartlett) Childcare Program	1
CEO-15	GAX01723001575	CITY OF PLACENTIA	300,000	DD - D4 (Chaffee) Gun buyback event	1
CEO-18	GAX01723001547	CITY OF COSTA MESA	100,000	DD - D5 (Bartlett) Shelter enhancements and support to address homelessness	1
CEO-19	GAX01723002071	ANAHEIM UNION HIGH SCHOOL DISTRICT	100,000	DD - D4 (Chaffee) Green Houses at the Magnolia Agriscience Community Center	1
CEO-23	GAX01723005537	SILSBY STRATEGIC ADVISORS INC	40,000	DD - D1 (Do) Consultant services for the Little Saigon Arch/Gateway Initiative	1
CEO-24	GAX01722001918	Community Action Partnership of Orange County	1,500,000	Emergency food to address immediate needs related to COVID-19.	1
CEO-25	GAX01722001903	Second Harvest Food Bank of Orange County	1,500,000	Emergency food to address immediate needs related to COVID-19.	1
HCA-1	MA04220012073	KINGDOM CAUSES INC	116,556	Project Tool Belt (interim housing, meals, rental/housing assistance, etc.)	1
HCA-2	MA04221011841	HUMAN OPTIONS INC	148,225	Supportive Services Emergency Housing Vouchers	1
HCA-3	MA04221011351	ORANGE COUNTY UNITED WAY	1,022,387	Supportive Services Emergency Housing Vouchers	
HCA-4	MA04221011198	PATH PEOPLE ASSISTING THE HOMELESS	515,384	Supportive Services Emergency Housing Vouchers	
HCA-5	MA04221011836	MAXIM HEALTHCARE SERVICES INC	2,544,850	Unfunded Services & Supplies - Surge Nursing Services	
HCA-6	MA04222010739	THE ILLUMINATION FOUNDATION	3,073,135	Temporary Isolation Shelter Services	1
HCA-7	MA04220010031	ADVANCED MEDICAL MGMNT INC	1,269,665	Unfunded Services & Supplies - Fiscal Intermediary Services for CHS	
HCA-8	MA04222010253	ORANGE COUNTY UNITED WAY	380,000	Partner Outreach Engagement & Grants Support Services (1st District)	1
HCA-9	MA04221011205	FAMILIES FORWARD	218,247	Supportive Services Emergency Housing Vouchers	1
HCA-10	MA04221011197	MERCY HOUSE LIVING CENTERS INC	385,305	Supportive Services Emergency Housing Vouchers	
HCA-11	MA04221011250	KOREAN COMMUNITY SERVICES INC	61,698	Abbott ID Now Rapid PCR Machines and Tests	
HCA-12	MA04221010079	IDEA HALL	88,272	Unfunded Services & Supplies - COVID-19 Media Campaign Services	1
OCCR-3	MA01222011548	ABOUND FOOD CARE	2,000,000	OCCR Hunger Alliance - Emergency Food and Water Storage	1, 3
OCCR-4	MA01221011549	Community SeniorServ Inc	2,000,000	Nutrition Gap Program Services - District Economic Impacts D4 (Chaffee)	1
OCCR-5	MA01222010028	PEOPLE FOR IRVINE COMM HEALTH	1,973,682	Nutrition Gap Program Services - 211 OC District 5 (Bartlett)	1
OCCR-6	PO01222010339	CELLCO PARTNERSHIP	1,812,118	Bridge Digital Divide -Tech Solutions for Seniors	
OCCR-10	MA01222010276	WALKABOUT INC	241,700	Bridge Digital Divide -Tech Solutions for Seniors	1



# INTERNAL AUDIT DEPARTMENT

Sample #	Expenditure ID	Vendor	Claimed Amount	Payment Description	Notes
OCCR-13	MA01219010968	AQUATECHNEX LLC	85,140	D3 (Wagner) - OC Parks Lake Management & Water Quality Maintenance	
OCCR-14	MA01218012106	Monaco Inc	19,186	Meal Gap Program - D2 (Foley) Print and mail services	
<b>Contracts Total</b>		<b>31</b>	<b>27,950,558</b>		
CEO-1	MOU ASR 22-001073	City of Garden Grove	5,300,000	Central Cities Navigation Center for temporary housing	2
CEO-8a	GAX01723004200	MIND OC	20,000,000	Be Well Irvine Campus Construction	
CEO-8b	GAX01723005818	MIND OC	10,000,000	Be Well Irvine Campus Construction	
CEO-8c	GAX01723003419	MIND OC	10,000,000	Be Well Irvine Campus Construction	
CEO-9	GAX01723002881	CITY OF COSTA MESA	3,200,000	DD - D2 (Foley) Construction of Lions Park Café and City Skate Park	2
CEO-11	GAX01723003321	ORANGE COUNTY CEMETERY DIST	1,000,000	DD - D3 (Wagner) Burial spaces for eligible police officers and firefighters	2
CEO-13	GAX01723002767	HOAG MEMORIAL HOSPITAL PRESBYTERIAN	500,000	DD - D5 (Bartlett) Women's healthcare services	2
CEO-14	GAX01723002984	MOMS ORANGE COUNTY	450,000	DD - D2 (Foley) Infrastructure expansion and education/support programs	2
CEO-16	GAX01723002474	LAGUNA FOOD PANTRY, INC	300,000	DD - D5 (Bartlett) Distribution of food to those experiencing food insecurity	2
CEO-17	GAX01723002539	LAURAS HOUSE	250,000	DD - D5 (Bartlett) Emergency shelter and transitional housing facility updates	2
CEO-20	GAX01723002610	GARDEN GROVE COMMUNITY FOUNDATION	70,000	DD - D1 (Do) Garden Grove Strawberry Zest Sculpture Project	2
CEO-21	GAX01723002297	FRESH BEGINNINGS MINISTRIES	50,000	DD - D2 (Foley) Thanksgiving turkey and meal box program	2
CEO-22	GAX01723003683	TIGER WOODS FOUNDATION, INC	50,000	DD - D4 (Chaffee) Student transportation for Classroom to Careers Program	2
OCCR-7	MA01221011828	ARTS ORANGE COUNTY	1,000,000	Economic Support to Small Businesses - D2 (Foley)	
OCCR-8	MA01221011554	CHARITABLE VENTURES OF ORANGE COUNTY	999,978	Economic Support to Small Businesses - D4 (Chaffee)	
OCCR-9	MA01222010885	WESTMINSTER CHAMBER OF COMMERCE	300,000	Economic Support to Small Businesses - D1 (Do)	
OCCR-16	MA01222010924	DTNTECH	25,000	Economic Support to Small Businesses - D1 (Do)	2, 3
<b>Beneficiary Agreements and MOUs Total</b>		<b>17</b>	<b>53,494,978</b>		
CEO-12	PRC001AP2300001048	US BANK NATIONAL ASSOCIATION	543,630	DD – Gift Cards: D2 Foley (\$412,503)/ Sarmiento (\$103,125) Inflation Relief  D3 Wagner (\$28,002) Outreach for Individuals Experiencing Homelessness (distributed by HCA)	
OCCR-11	MA01222010675	HOAG MEMORIAL HOSPITAL PRESBYTERIAN	200,000	DD – Gift Cards: D2 Foley - Meal Gap Program (HOAG fulfilled agreement through purchase and distribution of Gift Cards)	
OCCR-12	Gift Card 2	Various Vendors - Gift Cards	122,950	DD – Gift Cards: D2 Foley - Meal Gap Program	
<b>Gift Cards Total</b>		<b>5</b>	<b>866,580</b>		
CEO-7a	MOE	State of California	59,150,068	Trial Courts FY 2021-22 Expenses	
CEO-7b	MOE	State of California	59,150,068	Trial Courts FY 2022-23 Expenses	



# INTERNAL AUDIT DEPARTMENT

Sample #	Expenditure ID	Vendor	Claimed Amount	Payment Description	Notes
OCCR-1	JVAUD-23002792	OCCR	1,238,912	ARPA Housing Development Projects (Loan Agreement) - Riviera Motel	
OCCR-2	JVAUD-23002792	OCCR	82,988	Landlord Incentives Program (Signing Bonus & Tenant Move-in Assistance)	
OCCR-15	GAX01223004255	WISEPlace	1,500,000	Jamboree Housing - Loan Agreement for Permanent Supportive Housing	
<b>Other Expenditures Total</b>		<b>5</b>	<b>121,122,036</b>		
<b>Grand Total</b>		<b>58</b>	<b>203,434,152</b>		

1. Contract was justified as sole source based on allowable criteria. See Observation 5 in the report for more details.
2. Beneficiary agreement or MOU that did not have formal oversight activities that provide assurance. However, the County had some informal oversight practices. In addition, monitoring of these agreements/MOUs was not required at the time of our review. See Observation 2 in report for more details.
3. We referred this contract/agreement and vendor to the District Attorney and County Counsel for further review, as noted in Observation 1 (Abound Food Care) and Observation 2 (DTN Tech). In addition, we will review County oversight measures over additional ARPA contracts/expenditures related to Abound Food Care during the next phase of our audit.



# INTERNAL AUDIT DEPARTMENT

## ATTACHMENT B: ADDITIONAL INFORMATION

<b>OBJECTIVES</b>	Our audit objectives were to: <ol style="list-style-type: none"><li>1) Obtain an inventory of County’s American Rescue Plan Act (ARPA) expenditures, including contracts and payments, and total dollars expended, and perform a risk assessment to identify higher risk expenditures to determine whether County oversight measures ensure entities used funds in accordance with applicable requirements (e.g., federal or County requirements, an established contract).</li><li>2) Determine whether County departments:<ol style="list-style-type: none"><li>a) Appropriately conducted program, fiscal, and administrative monitoring in accordance with County policy or the contract, as applicable.</li><li>b) Reviewed contracted entity’s Single Audit reports, as applicable.</li><li>c) Ensured any relevant Single Audit or monitoring findings were appropriately followed-up on and resolved.</li><li>d) Adequately justified sole source contracts.</li></ol></li></ol>
<b>SCOPE &amp; METHODOLOGY</b>	Our scope was limited to a risk assessment of the County’s ARPA funded contracts and expenditures that included requesting information from County departments, examining documentation, and testing of higher risk contracts/expenditures.
<b>EXCLUSIONS</b>	We did not perform work in the following areas that are explicitly excluded from our review: <ul style="list-style-type: none"><li>• Comprehensive review of County departmental purchasing and contracting processes, which includes specific audit procedures with a focus on procurement (pre-award) compliance. These reviews have been or are scheduled to be conducted separately as part of our annual risk assessment and audit plan.</li><li>• Procurement governance which has been conducted by an outsourced audit firm as part of our audit plan.</li><li>• Evaluation to determine the proper classification of beneficiary agreements and contracts.</li><li>• Expenditures from other COVID-funding sources, such as Coronavirus Aid, Relief, and Economic Security Act (CARES). We will contract with an external audit firm to review CARES as part of the forensic audit directed by the Board at their December 3, 2024 meeting (Item 37).</li><li>• ARPA fund eligibility, such as gift card recipient’s eligibility.</li><li>• Authenticity of gift card logs.</li></ul>
<b>PRIOR AUDIT COVERAGE</b>	We have not issued any audit reports for the County with a similar scope within the last ten years.



# INTERNAL AUDIT DEPARTMENT

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## BACKGROUND

President Joe Biden signed the \$1.9 trillion American Rescue Plan Act (ARPA), a federal stimulus bill to aid public health and economic recovery from the COVID-19 pandemic, on March 11, 2021. The Coronavirus State and Local Fiscal Recovery Funds (SLFRF), under ARPA, was responsible for the allocation of \$350 billion in funding to eligible state, local, territorial, and Tribal governments. As such, the County of Orange was allocated \$616.8 million of SLFRF funds to respond to the COVID-19 pandemic; replace lost revenue to strengthen support for vital public services and help retain jobs; support immediate economic stabilization for households and businesses; and address public health and other economic challenges.

The SLFRF awards are generally subject to the requirements set forth in the Uniform Guidance or 2 CFR Part 200. Applicability of certain provisions can be found in the Uniform Guidance; SLFRF 2022 Final Rule; Assistance Listing No. 21.027; SLFRF FAQs, and SLFRF 2023 IFR.

Under the 2022 Department of Treasury Final Rule (as well as Sections 602(c)(1)(C) and 603(c)(1)(C) of the Social Security Act), recipients have broad latitude to use funds for government services up to their amount of revenue loss due to the pandemic. This allows recipients experiencing budget shortfalls to use payments from the SLFRF funds to avoid cuts to government services and enable governments to continue to provide valuable services. A potential use of funds that does not fit within the standard eligible use categories may be permissible as a government service, which recipients can fund up to their amount of revenue loss. Government services generally include any service traditionally provided by a government, including construction of roads and other infrastructure, provision of public safety and other services, and health and educational services.

The SLFRF Final Rule, dated April 1, 2022, specifically addressed expenditures under the "Revenue Replacement" expenditure category. FAQ 13.14 specified Treasury determined that there was no subawards under that use category. Recipients' use of revenue loss funds does not give rise to subrecipient relationships given there is no federal program or purpose to carry out in the case of the revenue loss portion of the award. As such, subrecipient monitoring compliance requirements are not applicable to SLFRF revenue loss funds. In addition, FAQ 13.15 explained only a subset of the requirements in Subparts D and E of the Uniform Guidance applied to revenue loss funds. The requirements of 2 CFR sections 200.318 through 200.327 (procurement requirements) are not applicable to SLFRF revenue loss funds.

There are two ways to proceed under the revenue loss category: a unit may either elect to take the \$10 million Standard Allowance or it may calculate actual revenue loss according to U.S. Treasury's formula outlined in the Final Rule. The County chose the latter option and reported their revenue loss calculation and claimed the maximum allowable amount, which amounted to \$589.5 million (95.6%) of the total \$616.8 million allocation. The remaining allocation of \$27.3 million



# INTERNAL AUDIT DEPARTMENT

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(4.4%) was claimed under the Public Health expenditure category and consisted of emergency paid sick leave and worker's compensation.

Our risk assessment focused on ARPA funded contracts with outside entities, which totaled approximately \$254.2 million in expenditures and all were claimed under the eligible SLFRF revenue loss expenditure category. The remaining \$335.3 million in revenue loss expenditures claimed included costs for County payroll (\$326.9 million), internal job billings (\$2.2 million), and various aggregate awards of less than \$50,000 per award (\$6.2 million). It should be reiterated that based on the above mentioned Final Ruling regarding the Revenue Replacement category, all contracts awarded and claimed under this category were not subject to certain audit (i.e. Single Audit) and subrecipient monitoring requirements. However, our risk assessment still considered any and all monitoring efforts conducted by County departments.





# INTERNAL AUDIT DEPARTMENT

<b>PURPOSE &amp; AUTHORITY</b>	<p>We performed this ARPA risk assessment and review of expenditures in accordance with the motion that the Board of Supervisors (Board) approved on September 24, 2024 as part of item 37-E, and subsequent clarification, as noted in our December 16, 2024 extension letter to the Board.</p>
<b>PROFESSIONAL STANDARDS</b>	<p>Our assessment was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing issued by the International Internal Audit Standards Board.</p>
<b>FOLLOW-UP PROCESS</b>	<p>In accordance with professional standards, the Internal Audit Department has a process to follow up on its recommendations. However, we will hire external auditors to conduct a more in-depth forensic audit, as directed by the Board in the December 3, 2024 meeting (Item 37). Due to our limited resources and the additional review the external auditors will perform on our results and the County's ARPA funds, we will prioritize new audits and not follow up on this review unless otherwise instructed by the Board and/or ACO.</p>
<b>MANAGEMENT'S RESPONSIBILITY FOR INTERNAL CONTROL</b>	<p>In accordance with the Auditor-Controller's County Accounting Manual Section S-2 Internal Control Systems: "All County departments shall establish effective internal controls as department management is responsible for internal control. Department management shall also continuously assess and strengthen internal control by evaluating internal control systems and promptly correcting weaknesses when detected." The criteria for evaluating internal control is the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control – Integrated Framework. Our audit enhances and complements, but does not substitute for department management's continuing emphasis on control activities and monitoring of control risks.</p>
<b>INTERNAL CONTROL LIMITATIONS</b>	<p>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.</p>



# INTERNAL AUDIT DEPARTMENT

## ATTACHMENT C: BOARD MOTION 9/24/24 ITEM S37-E & IAD EXTENSION REQUEST



### INTERNAL AUDIT DEPARTMENT

Audit No. 2425

December 16, 2024

To: Chairman Donald P. Wagner, Supervisor, 3rd District  
Vice Chairman Doug Chaffee, Supervisor, 4th District  
Supervisor Janet Nguyen, 1st District  
Supervisor Vicente Sarmiento, 2nd District  
Supervisor Katrina Foley, 5th District

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

A handwritten signature in blue ink, appearing to read "Aggie Alonso".

Digitally signed by Agripino Alonso  
Date: 2024.12.16 16:07:40 -08'00'

Subject: Extension Request for Risk Assessment of All Orange County American Rescue Plan Act Funded Contracts (September 24, 2024, Board Agenda Item S37E)

On September 24, 2024, the Board of Supervisors (Board) approved a four-part motion related to County of Orange (County) contracting and oversight reform. The first part of the motion directs the Internal Audit Department (IAD) to conduct a risk assessment of all County American Rescue Plan Act (ARPA) funded contracts within 90 days to ensure all contract audit and monitoring requirements are being met within all County departments (Attachment).

We are working with the various County departments to complete our risk assessment of all 347 ARPA funded contracts and expenditures, and finalize the additional testing we performed on high-risk contracts and expenditures we sampled. We are also drafting our report for the Board and will work closely with County departments to clear the results of our assessment. We anticipate issuing our report by January 31, 2025.

In addition, the following is our plan to fully address the intent of the Board's motion of reviewing all contracts and expenditures funded by COVID-19 pandemic relief programs, including ARPA and the Coronavirus Aid, Relief, and Economic Security Act (CARES), as discussed during the November 19, 2024 and December 3, 2024 Board meetings:

- The IAD will review all remaining ARPA funded contracts and expenditures. We will report to the Board in phases as we complete additional work. We anticipate completing the review of all 347 ARPA contracts and expenditures, and issuing our last and final report by June 30, 2025. We strive to provide the Board with timely information and will make every effort to complete our work ahead of schedule.
- The external audit firm contracted by IAD will review all CARES funded contracts and expenditures as part of the forensic audit directed by the Board at their December 3, 2024 meeting. The external audit firm will report their results to the Board during a future Board meeting.

If you have any questions, please contact me at (714) 834-5442 or Deputy Director Jose Olivo at (714) 834-5509.



# INTERNAL AUDIT DEPARTMENT

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Members, Board of Supervisors  
December 16, 2024

Attachment

Other recipients of this memo:  
Members, Audit Oversight Committee  
County Executive Office Distribution  
Auditor-Controller Distribution  
Eide Bailly LLP, County External Auditor  
County Counsel Distribution  
Foreperson, Grand Jury  
Robin Stieler, Clerk of the Board



# INTERNAL AUDIT DEPARTMENT

Members, Board of Supervisors  
December 16, 2024

Attachment



RECEIVED

2024 SEP 18 AM 11:23

CLERK OF THE BOARD  
COUNTY OF ORANGE  
BOARD OF SUPERVISORS

## Memorandum

To: Robin Steiler, Clerk of the Board  
From: Supervisor Katrina Foley, Fifth District  
Date: September 18, 2024  
RE: Add Supplemental Item for the September 24, 2024 Meeting of the Board of Supervisors #S37E

Please place a supplemental item to the September 24, 2024 meeting of the Board of Supervisors to take the following recommended actions related to American Rescue Plan Act (APRA) funds administered by the County of Orange and contract policies.

### Recommend Action 1

Direct the Internal Auditor to conduct a Risk Assessment of all County of Orange ARPA funded contracts within 90 days to ensure all contract audit and monitoring requirements are being met within all County departments.

### Recommended Action 2

Direct the Interim Chief Executive Officer to draft a policy for the Board of Supervisors to consider to require all Board Discretionary contracts to be reviewed and approved by the County Procurement Office to ensure consistency and that the highest standard of safeguards are in place.

### Recommended Action 3

Direct the Interim Chief Executive Officer to conduct a review of County contracts, including subcontracts, to determine if there are familial relationships that would require disclosure or abstention in the future in accordance with Senate Bill 1111 (Min) and Assembly Bill 3130 (Quirk-Silva and Valencia) that were recently signed into law by the Governor.

### Recommended Action 4

Direct the Interim Chief Executive Officer to provide the Board of Supervisors a quarterly update of all contract disputes within the County.





### Revision to ASR and/or Attachments

RECEIVED  
021 NOV 27 AM 11:35  
CLERK OF THE BOARD  
COUNTY OF ORANGE  
BOARD OF SUPERVISORS

A handwritten signature in blue ink, likely belonging to the Clerk of the Board, is written over the stamp.

**Date:** November 27, 2024  
**To:** Clerk of the Board of Supervisors  
**CC:** County Executive Office  
**From:** Supervisor Vincente Sarmiento, Second District  
**Re:** Meeting Date 12/03/24, Item No. # 37  
**Subject:** Revision to Recommended Action 1

Explanation: Second District requests the following:

Please replace Recommended Action 1 with the following language:

Direct the Internal Audit Department to hire, pursuant to the Contract Policy Manual, an independent external audit firm to conduct a forensic audit of all contracts established between January 2019 and August 2024. This audit will include, but not be limited to, contracts within the County Executive Office, Health Care Agency, OC Community Resources and the Social Services Agency. The scope will include the review for compliance with the Contract Policy Manual and all applicable procurement-related statutes, and prioritize the review of Human Services and Sole Source contracts funded by ARPA, CARES Act, MHSA and the General Fund. This external audit shall not interfere with any of the ongoing investigations or litigation against former Supervisor Andrew Do or any of the parties involved. Upon completion of the report, the selected firm shall present their findings and recommendations publicly at a Board of Supervisors meeting or public forum.

# INTERNAL AUDIT DEPARTMENT



Board of Supervisors

Memorandum

RECEIVED

2024 NOV 27 AM 11:50

CLERK OF THE BOARD  
COUNTY OF ORANGE  
BOARD OF SUPERVISORS

November 13~~26~~, 2024

**To:** Robin Steiler, Clerk of the Board  
**From:** Supervisor Vicente Sarmiento, 2<sup>nd</sup> District

**Subject:** Addition of Supplemental Item to the ~~November-December 193~~, 2024, Board Meeting Agenda

Following the revelations regarding former Supervisor Andrew Do, the Board has directed several reforms in contracting and procurement that are currently being implemented. These reforms are intended to help remedy the causes which resulted in the investigation, guilty plea and resignation on the conspiracy to commit bribery charge of the former Supervisor. To rebuild public trust and ensure accountability moving forward, a comprehensive independent external audit, along with enhanced transparency and accountability measures, is essential.

I ask that the Board of Supervisors approve the following recommended actions during the November 19, 2024, meeting:

1. Direct the Internal Audit Department to hire, pursuant to the Contract Policy Manual, an independent external audit firm to conduct a forensic audit of all contracts established between January 2019 and August 2024. This audit will include, but not be limited to, contracts within the County Executive Office, Health Care Agency, OC Community Resources and the Social Services Agency. The scope will include the review for compliance with the Contract Policy Manual and all applicable procurement-related statutes, and prioritize the review of Human Services and Sole Source contracts funded by ARPA, CARES Act, MHSA and the General Fund. This external audit shall not interfere with any of the ongoing investigations or litigation against former Supervisor Andrew Do or any of the parties involved. Upon completion of the report, the selected firm shall present their findings and recommendations publicly at a Board of Supervisors meeting or public forum.

~~Direct the County Executive Office, the County Purchasing Office, and the Internal Audit Department to hire an independent external audit firm to conduct a forensic audit and investigation of all contracts directed or influenced by former Supervisor Andrew Do. The firm should be selected following a competitive solicitation and the scope of the review should include all aspects of the contracting process including:~~



# INTERNAL AUDIT DEPARTMENT

- ~~• Vendor selection process and whether competitive solicitations were conducted, and proposers were appropriately evaluated.~~
- ~~• Contract management process, ensuring compliance with fiscal, programmatic, and administrative oversight to verify that services were delivered as agreed and payments were made appropriately based on the services provided.~~
- ~~• Review of current procurement and compliance policies / procedures and reform efforts and benchmark against industry best practices.~~

~~After the report has been completed, the selected firm shall present findings and recommendations publicly at a Board of Supervisors meeting or public forum.~~

2. Direct County Counsel and County CEO to review and confirm that our current Orange County Fraud Hotline is utilizing the best industry practices regarding whistleblower programs and come back to the Board with recommendations, if necessary, on how to expand the current program or create a new program that includes:

- Best practices related to effective reporting mechanisms, safeguarding confidentiality, protecting whistleblowers and investigation of complaints.
- Expanded anti-retaliation policy.
- Training and awareness of the new or expanded program.

3. Direct Office of Campaign, Finance and Ethics Commission to research industry best practices for the implementation of an expanded Code of Ethics for Supervisors with potential enforcement mechanisms and provide recommendations to the Board for adoption.



## ATTACHMENT E: COUNTY MANAGEMENT RESPONSE

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### County Executive Office

#### Memorandum

February 5, 2025

To: Aggie Alonso, Internal Audit Department Director

From: Michelle Aguirre, Interim County Executive Officer  
Dylan Wright, OC Community Resources Director  
Veronica Kelley, Health Care Agency Director

Subject: ARPA Risk Assessment: County Response

Signed by:

*Michelle Aguirre*

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*Dylan Wright*

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DocuSigned by:

*Veronica Kelley*

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The Internal Audit Department conducted the ARPA Risk Assessment as approved by the Board of Supervisors via item S37E at the September 24, 2024 Board of Supervisors meeting. The audit report requests the County provide a response to the Observations noted in the report. Accordingly, please see the County's responses below.

#### **Observation No. 1 – Contract Monitoring**

Partially agree with this Observation. The County has already taken steps and strengthened controls to ensure entities/contractors/vendors are in good standing prior to issuing contracts. The CPM was updated in September 2024, which established threshold criteria required prior to contract issuance such as verifying that entities/contractors/vendors are in good standing and/or registered with the California Secretary of State, Attorney General, Dun & Bradstreet, and System for Award Management (SAM) at SAM.gov. Please refer to CPM Section §3.1-124 (3), Contract Monitoring. Additionally in January 2025, all County Deputy Purchasing Agents (DPAs) received training presented by the CPO on Uniform Guidance requirements, County Subrecipient Monitoring Policy (SMP), Due Diligence including sub-contractors, Single Audit requirements, Pre Award Risk Assessment and Annual Risk Assessments for all Human Services contracts, Fiscal Monitoring (including annual Fiscal Year End [FYE] closeout), Sanction Screening requirements, Invoice Review and Approval, Annual Site Visits, Annual Contractor Performance Evaluations, and the Notice to Cure/Corrective Action Plan process. Furthermore, CEO will revisit the SMP to ensure it is consistent with the September 2024 CPM updates, the Procurement Procedures Manual and operational procedures.





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## **Observation No. 2 – Beneficiary Agreements/Memoranda of Understanding**

Recommendation was implemented. The County has already taken steps and implemented ways to strengthen contract monitoring. Beneficiary agreements include reporting and documentation requirements to support oversight activities, to ensure entities' use of funds are in accordance with their agreement. Please refer to Section §3.1-124, Contract Monitoring, in the September 2024 CPM update. MOU monitoring requirements are tailored based on the type of services provided, if/when the County can quantify such services. Additionally, MOU monitoring requirements are usually dictated by the relationship between the entities that enter into the MOU. As warranted, MOUs include reporting and documentation requirements to support oversight activities, to ensure entities' use of funds are in accordance with their MOU. The CPM was updated in September 2024, which established policy for entering into MOUs, please refer to Section §3.8 of the CPM. Furthermore, CEO will revisit Section §3.8, MOU, of the CPM to address oversight measures, as warranted by the relationship between the entities that enter into the MOU.

## **Observation No. 3 – Gift Card Expenditures**

Partially agree with this Observation. The County has already implemented this Observation and formalized policies and procedures related to Cash Alternatives in the September 2024 CPM update. Please refer to Section §3.1-122 Cash Alternative Purchases. Furthermore, the Procurement Procedures Manual includes the controls/requirements from the ICAP (§3.4-105 Cash Alternative (2) d) and the requirements of documenting card number, value, and transfer of accountability. Additionally, some departments, such as the Health Care Agency, follow a departmental Gift Card Policy and Procedure, which includes the purchase of gift cards, security and maintenance of gift cards, detailed tracking logs, and transfer of accountability.

## **Observation No. 4 – Other ARPA Expenditures**

Not applicable

## **Observation No. 5 – Sole Source Procurement**

Strongly disagree with this Observation. This Observation is outside of the scope of the audit approved via item S37E from the September 24, 2024 Board meeting. Observation No. 5 contradicts the Exclusions noted in the audit report. Additionally, per the ARPA guidance, the procurement standards set forth in the Uniform Guidance at 2 CFR 200.317 through 2 CFR 200.327 are not applicable requirements to recipients' use of funds in the revenue loss eligible use category. Furthermore, CEO will revisit Section 4.5, Sole Source Requests of the CPM to update and clarify guidance on sole source justification, as needed.

## **Observation No. 6 – Centralized Contract Management System**

Strongly disagree with this Observation. This Observation is outside of the scope of the audit approved via item S37E from the September 24, 2024 Board meeting. Observation No. 6



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contradicts the Exclusions noted in the audit the report. Additionally, CPO has implemented a centralized contract management system through OpenGov, which includes an automated contractor performance evaluation capability. CPO continues to enhance the capabilities of OpenGov and will look to further enhance as recommended, where feasible. Furthermore, as of 2022, the CPO implemented a robust DPA training program and increased the yearly required training hours from 10 to 15. Goals of the training program included standardizing contract monitoring, implementation of industry wide best practices, and the implementation of a Procurement Professionals Program. Also, in January 2025, all County DPAs received training presented by the CPO on Uniform Guidance requirements, County Subrecipient Monitoring Policy, Due Diligence including sub-contractors, Single Audit requirements, Pre Award Risk Assessment and Annual Risk Assessments for all Human Services contracts, Fiscal Monitoring (including annual FYE closeout), Sanction Screening requirements, Invoice Review and Approval, Annual Site Visits, Annual Contractor Performance Evaluations, and the Notice to Cure/Corrective Action Plan process.

Additionally, the Auditor-Controller is coordinating the process for the new ERP system which already includes the integration of Procurement, Grant Management and Assets Management in the modernization of all systems. The ERP RFP with this concept was approved by the Board of Supervisors in February 2024.

Due to the current status and progress of the ERP RFP, the recommendation on this Observation may not be feasible.

**Observation No. 7 – Board Discretionary Spending Policy**

Not applicable

cc: Kim Engelby, Chief Financial Officer  
Maria Agrusa, County Procurement Officer  
Joanne Veedor, OC Community Resources Administrative Services Director  
Lorraine Daniel, Health Care Agency Administrative Services Director  
Ronnie Magsaysay, County Counsel Attorney

