INTERNAL AUDIT DEPARTMENT

Internal Control Audit:
Health Care Agency
Purchasing & Contracts for Human Services
For the Period of January 1, 2022
through June 30, 2023

Audit No. 2326 (2215)
Report Date: July 28, 2025

Number of Recommendations

0 Critical Control Weaknesses

0 Significant Control Weaknesses

3 Control Findings

OC Board of Supervisors

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INTERNAL AUDIT DEPARTMENT

Internal Control Audit:
Health Care Agency Purchasing & Contracts for Human Services
July 28, 2025

AUDIT HIGHLIGHTS

SCOPE OF WORK	Perform an internal control audit of the Heath Care Agency's (HCA) Purchasing and Contracts process for Human Services for the period of January 1, 2022 through June 30, 2023.
RESULTS	Based on the information we obtained and testing of a judgmentally selected sample of 17 contracts, we concluded that HCA's: • Internal control over the purchasing and contracts process is generally effective to ensure requisitions and procurement of human services are executed in accordance with County purchasing rules; adequately supported; and properly authorized and recorded. • Contract monitoring activities provide adequate oversight of contracted services. • Purchasing and contracts process is generally efficient. However, we also noted three control findings and opportunities to enhance process controls.
RISKS IDENTIFIED	As a result of our findings, potential risks include: • Errors, inefficiencies, and compliance violations with County purchasing rules. • Negative impact on the ability to continue contract services operations in the event of an emergency or other disruption. • Difficulty performing oversight and ensuring staff adhere to County procurement rules, including retention of required documents and/or performance of important procurement steps. • Business Employer Identification Numbers being misused. • Unauthorized access to and approvals of purchase requisitions and invoices that are routed for payment.
NUMBER OF RECOMMENDATIONS **0** CRITICAL CONTROL WEAKNESSES **0** SIGNIFICANT CONTROL WEAKNESSES **3** CONTROL FINDINGS	Opportunities for enhancing internal control include: • Updating outdated information in internal purchasing procedures and the business continuity plan, and establishing a documented process to periodically review and update these documents. • Ensuring electronic procurement files are standardized and retaining the required documentation, in accordance with County Procurement Office requirements. • Periodically performing formal, documented user access certification reviews for appropriateness to ensure access is restricted to individuals with direct business need and disabled when no longer required.

Report suspected fraud or misuse of County resources by vendors, contractors, or County employees to (714) 834-3608

July 28, 2025

To: Veronica Kelley, DSW, MSW, LCSW
               Health Care Agency Director

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

Subject: Internal Control Audit: Health Care Agency Purchasing & Contracts for Human Services

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We have completed an internal control audit of Health Care Agency's (HCA) Purchasing and Contracts process for Human Services for the period of January 1, 2022 through June 30, 2023. Our review was delayed due to various factors, including other assignment priorities, such as the Risk Assessment and Review of All Orange County American Rescue Plan Act Funded Contracts and Expenditures, directed by the Board of Supervisors (Board) on September 24, 2024 (Board Agenda Item S37E) and issued February 5, 2025.

Details of our audit results immediately follow this letter, and additional information including background and our objectives, scope, and methodology are included in Appendix A. HCA concurs with all our recommendations and we consider management's response, Appendix C, 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 HCA's personnel during our audit. If you have any questions regarding our audit, please contact me at (714) 834-5442 or Deputy Director Jose Olivo at (714) 834-5509.

Attachments

Other recipients of this report:
  Members, Board of Supervisors
  Members, Audit Oversight Committee
  County Executive Office Distribution
  Health Care Agency Distribution
  Auditor-Controller Satellite Accounting Operations Distribution
  Robin Stieler, Clerk of the Board
  Foreperson, Grand Jury
  Eide Bailly LLP, County External Auditor

INTERNAL AUDIT DEPARTMENT

RESULTS

BUSINESS PROCESS & INTERNAL CONTROL STRENGTHS	We noted business process and internal control strengths during our audit. Specifically, HCA:

✓ Participates in the County Procurement Office's (CPO) Annual Compliance Review, which is a CPO audit that helps ensure HCA's compliance with procurement and contracting policies and directives.

✓ Participates in CPO's Human Services contracts workgroup, which meets quarterly to discuss ways to improve human services solicitations, including how to increase competitive bidding.

✓ Developed an internal "Human Services Procedures Manual" which details procurement guidance specifically for human services contracts.

✓ Reviews encumbrances semi-annually to determine whether balances are still needed or should be closed out.

✓ Attends Procurement Council meetings, where HCA management learns about County procurement policy and procedure updates that they subsequently share with staff.

✓ Uses the County's online requisitioning system to automate and facilitate procurement activities, such as requisitions and acknowledgement of the receipt of services for invoice payments.

✓ Uses an internally developed Contract Administration Matrix as a comprehensive tool to track and document actions needed during each step of the procurement process. The matrix includes a due diligence process to fully vet contractors as well as pre-award and annual risk assessments to establish contract monitoring levels, regardless of funding source.

✓ Performs contract monitoring activities, such as pre-award risk assessments to establish monitoring levels, annual site visits, annual programmatic evaluations, expense report reviews, and Single Audit result reviews, when applicable.

✓ Conducts monthly all-hands meetings to share new initiatives and training with procurement and program staff.

✓ Develops and provides stakeholder trainings to increase awareness and education on the procurement and contracting process.

✓ Demonstrated knowledge and understanding of Uniform Guidance (2 CFR Part 200) requirements that have resulted in no procurement-related findings during the County's last two Single Audits.

FINDING NO. 1	**Business Continuity Plan and Policies & Procedures Update**
	HCA has documented internal policies and procedures to guide staff in their day-to-day purchasing activities and a written business continuity plan (BCP) for the continuation of contract services operations in the event of an emergency or other business disruption. However, at the time of our review, HCA did not have a formal process to periodically review their policies and procedures and BCP to ensure they remain current. Subsequent to our review, HCA indicated they implemented a comprehensive review on a two-year cycle, and they are currently in process of reviewing and updating all agencywide policies and procedures.
	We also noted:
	• HCA's Master Agreement Monitoring procedure, which guides staff in monitoring agreements to prevent cost overruns, was last revised in 2015 and references an outdated version of County policy. Subsequent to our review, the County also revised the Contract Policy Manual (CPM) which could have an impact in this area. HCA should update their policies and procedures, as applicable, to ensure they are current and align with overall County policy. HCA indicated their procedures align with County procurement procedures.
	• HCA has not reviewed or updated their BCP since it became effective in February 2018, and it contains outdated job titles and references to a building and system that are no longer in use. Subsequent to our review, HCA indicated they updated the BCP in August 2024. They also have another review currently underway and anticipate issuing a revised BCP by August 2025.
CATEGORY	**Control Finding**
RISK	Outdated purchasing policies and procedures increase the risk of errors, inefficiencies, and compliance violations with County purchasing rules. In addition, an outdated BCP could negatively impact HCA's ability to continue contract services operations in the event of an emergency or other disruption.
RECOMMENDATIONS	HCA management:
	A. Update internal purchasing procedures and the BCP as noted in the finding.
	B. Establish a documented process to periodically review and update internal policies and procedures and the BCP.
MANAGEMENT RESPONSE	**Concur.** HCA concurs with the finding. HCA's Procurement and Contract Services BCP Playbook was last published in August 2024. In November 2024, HCA's Procurement and Contract Services BCP Playbook underwent a subsequent review and is currently under HCA leadership's final review and awaiting publication by August 2025.

FINDING NO. 2	**Procurement Documentation**
	During our review, we requested documentation for testing, such as copies of requisitions, internet postings, bid packets, and evaluation committee documents to assess HCA's procurement processes and control, and noted several issues with documentation. Specifically:
	• HCA maintains electronic procurement file folders (ePFF) with documentation required to support procurement activities and adherence to CPO procurement rules. However, they do not organize files by contract in one central location in accordance with the CPO's ePFF standardized requirements and guidelines, making it difficult to perform oversight and ensure staff's adherence to CPO rules.
	For example, we noted HCA could not locate evaluation panel qualification forms for one (50%) of two Request for Proposal solicitations we reviewed, to document panel members' qualifications and experience and justify their participation in the panel. The lack of standardized organization also required HCA staff to spend additional time locating documentation for our review, resulting in delays in completing our test work.
	• HCA downloads solicitation bid packets from the online bidding system to evaluate proposals and stores these documents on their local network. However, the packets contain W-9 forms with vendor's Employer Identification Number (EIN) and HCA retained this information in their files when not needed. While EINs are public information and required in certain contracts to conform with Federal Uniform Guidance, they could be considered sensitive, and it is the County's practice to discard W-9 forms when not needed.
	Subsequent to our review, HCA indicated they updated their practice to discard W-9 forms immediately after downloading solicitation bid packets and have taken steps to remove W-9s from procurement files.
	During our fieldwork, we placed this review on hold due to other assignment priorities, including a Board directive to review the County's American Rescue Plan Act Funded contracts and expenditures. During this time, the County continued its implementation of OpenGov as its centralized contract management system which may have resulted in changes to CPO's e-file requirements and related HCA processes, including eliminating the need to download solicitation bid packets containing W-9 forms. HCA should ensure procurement file documentation adheres to the most current guidelines.
CATEGORY	**Control Finding**

RISK	The lack of standardized file organization makes it difficult to perform oversight and ensure staff adhere to County procurement rules, including retaining required documents and/or performing important procurement steps. Also, retaining W-9 forms when not needed increases the risk of business EINs being misused.
RECOMMENDATION	HCA management ensure electronic procurement files are standardized and retain the required documentation, which includes properly discarding W-9 forms when not needed, in accordance with CPO requirements.
MANAGEMENT RESPONSE	**Concur.** HCA concurs with the finding and has taken steps to ensure all PCS staff have been trained on electronic Procurement File Folder (ePFF) and proactively trained during the audit period on June 6, 2023. This training included rolling out a centralized location for ePFF folders and the need to ensure W-9s are not included in ePFF going forward. Additionally, OpenGov, the County's online bidding system standardization does not require W-9s to be submitted in the proposal packets, which rectifies the human error associated with accidentally retaining these documents in ePFFs.
	HCA has brought this matter to CPO's attention as the DPAs are conflicted between County Policy and Uniform Guidance. CPO will research, publish direction and modify any policies and procedures accordingly.
	HCA IT identified that a Network folder was accidentally deleted and therefore there was no access to the missing file. Procurement staff did collect this information prior to convening the evaluation panel, the item was missing because of a technological issue. HCA IT is reviewing procedures of storing Network Files to prevent this in the future.

FINDING NO. 3	**Requisition System User Access Review**
	Periodic user access reviews help ensure system access is appropriate and necessary for users' job duties.
	HCA indicated they require staff to annually review user access to the County's requisition system, which is used to process purchasing requisitions, acknowledge receipt of goods and services, and route invoices for approval and payment. However, HCA has not established documentation controls to provide evidence and assurance that staff perform these reviews annually. While HCA performed a user access review during our audit, they could not document that they have been consistently performing these reviews.
	Although only active employees can access the requisition system, HCA has over 200 active employees in the system and periodic reviews help ensure staff disable user's access when there are changes to their job duties and access is no longer needed.
CATEGORY	**Control Finding**

RISK	The lack of periodic user access reviews increases the risk of unauthorized access to and approvals of purchase requisitions and invoices that are routed for payment.
RECOMMENDATION	HCA management periodically perform formal, documented user access certification reviews for appropriateness to ensure access is restricted to individuals with direct business need and disabled when no longer required.
MANAGEMENT RESPONSE	**Concur.** HCA concurs with this finding and has standardized processes that align with the Centralized Procurement transition. At the time of the audit, the Procurement Unit managed user access in OC Expediter. This responsibility has transitioned to PCS Operations Unit to ensure compliance and centralize processes that affect the entire Department. PCS intends to incorporate this review in HCA's Annual Fiscal Year End processes, to be completed annually prior to June 30. HCA has checks and balances built into the processing of OC Expediter User Access that requires ARAs be updated with Final Approval permissions, prior to adding that access in OC Expediter. The only HCA staff that have Final Approval without their ARA reflecting that, are those that were grandfathered in prior to requirement. CPO maintains the list and reviews this during their compliance audit/review.

AUDIT TEAM	Gianne Morgan, CIA, CISA	Senior Audit Manager
	Alejandra Luna	Audit Manager
	Gabriela Cabrera, CIA	Administrative Services Manager

APPENDIX A: ADDITIONAL INFORMATION

OBJECTIVES	Our audit objectives were to: 1. Evaluate the effectiveness of internal control over the purchasing and contracts process to ensure requisitions and procurement of human services are executed in accordance with County purchasing rules; adequately supported; and properly authorized and recorded. 2. Perform a review of selected contract monitoring activities to ensure adequate oversight of contracted services. 3. Review the purchasing and contracts process for efficiency.
SCOPE & METHODOLOGY	Our audit scope was limited to internal control over HCA's purchasing and contracts process for human services for the period of January 1, 2022 through June 30, 2023. Our methodology included inquiry, observation, and examination of documentation.

EXCLUSIONS	Our audit scope did not include a review of:
	
	• Administration over contract types other than human services contracts (e.g. commodity, service, hybrid, capital assets, unilateral); including:
	
	   o Leases, which are managed by CEO Real Estate; Public Works.
	
	   o Architecture & Engineering contracts, which are managed by OC Public Works
	
	   o Cooperative agreements, which are established by the County Procurement Office (CPO).
	
	• Comprehensive IT controls over CAPS+ or other IT systems.

PRIOR AUDIT COVERAGE	We issued an audit report for a Board-directed contracts review on February 5, 2025, Audit No. 2425 Risk Assessment and Review of All Orange County American Rescue Plan Act (ARPA) Funded Contracts and Expenditures (September 24, 2024, Board Agenda Item S37E). The assessment, which included a review of HCA's ARPA-funded contracts, was to determine whether County oversight measures ensured entities used funds in accordance with applicable requirements and to determine whether County departments appropriately conducted program, fiscal, and administrative contract monitoring. This report provides insight on the County's contract monitoring efforts, which is also important to consider as part of the entire purchasing business cycle. In addition, we issued an audit report for HCA with a similar scope on March 23, 2020, Audit No. 1819 Health Care Agency Purchasing for the Year Ended April 30, 2019.

BACKGROUND	HCA is comprised of six services areas: Public Health Services, Mental Health & Recovery Services, Correctional Health Services, Medical Health Services, and Administration. Within HCA Administration, the Procurement & Contract Services division is responsible for contract administration.

During the audit period, HCA recorded contracts totaling an order amount of approximately **$1.2B,** of which **$968M** (81%) were for Human Services. These contracts were solicited using methods such as Request for Proposals, Sole Sources, and Emergency contracts. Approximately $155M (16%) of human services contracts recorded were solicited using a sole source or emergency procurement method.

Contract Policy Manual and Procurement Procedures Manual

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 2021 CPM, which was effective July 1, 2021, was used as the criteria for this audit.

The County Procurement Procedures Manual (PPM) was published by the CPO on July 1, 2021. The manual establishes rules and procedures related to the management of the procurement process for commodities and services, and is intended to encourage uniform procedures based on current legislation and internal policy. We considered applicable procedures for this audit.

In addition, HCA maintains its own internally developed Human Services Procedures Manual, which details procurement steps specifically for human services contracts.

Subsequent to our review, both the CPM and PPM were updated in 2024 to add several policy enhancements.

Purchasing System

HCA utilizes the County's requisition system for day-to-day purchasing activities (e.g., requisitions and acknowledgement of the receipt of services). The common name of the system has been omitted from this report for information security purposes.

INTERNAL AUDIT DEPARTMENT

PURPOSE & AUTHORITY	We performed this audit in accordance with the FY 2022-23 Audit Plan and Risk Assessment approved by the Audit Oversight Committee (AOC) and Board of Supervisors (Board).
PROFESSIONAL STANDARDS	Our audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing issued by the International Internal Audit Standards Board.
FOLLOW-UP PROCESS	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.
	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.
	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.
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 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.
INTERNAL CONTROL LIMITATIONS	Because of inherent limitations in any system of internal control, errors or irregularities may nevertheless occur and not be detected. Specific examples of limitations include, but are not limited to, resource constraints, unintentional errors, management override, circumvention by collusion, and poor judgment. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or the degree of compliance with the procedures may deteriorate. Accordingly, our audit would not necessarily disclose all weaknesses in the department's operating procedures, accounting practices, and compliance with County policy.

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

APPENDIX C: HEALTH CARE AGENCY MANAGEMENT RESPONSE

OC health CARE AGENCY · COUNTY OF ORANGE CALIFORNIA

VERONICA KELLEY, DSW, LCSW
AGENCY DIRECTOR

LORRAINE DANIEL, MPA
ASSISTANT AGENCY DIRECTOR

405 W. 5th STREET, 7th FLOOR
SANTA ANA, CA 92701
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OFFICE OF THE DIRECTOR

July 22, 2025

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

Re: Audit No. 2326 (2215)

Dear Mr. Alonso:

The County of Orange Health Care Agency (HCA) acknowledges receipt of the draft audit report on Audit No. 2326 (2215) Internal Control Audit: Health Care Agency Purchasing & Contracts for Human Services for the period of January 1, 2022, through June 30, 2023. Please see the concurrence for each finding below and additional information/corrective action.

Finding #1 – Business Continuity Plan and Policies & Procedures Update
- HCA concurs with the finding. HCA's Procurement and Contract Services BCP Playbook was last published in August 2024. In November 2024, HCA's Procurement and Contract Services BCP Playbook underwent a subsequent review and is currently under HCA leadership's final review and awaiting publication by August 2025.

Finding #2 – Procurement Documentation
- HCA concurs with the finding and has taken steps to ensure all PCS staff have been trained on electronic Procurement File Folder (ePFF) and proactively trained during the audit period on June 6, 2023. This training included rolling out a centralized location for ePFF folders and the need to ensure W-9s are not included in ePFF going forward. Additionally, OpenGov, the County's online bidding system standardization does not require W-9s to be submitted in the proposal packets, which rectifies the human error associated with accidentally retaining these documents in ePFFs.
- HCA has brought this matter to CPO's attention as the DPAs are conflicted between County Policy and Uniform Guidance. CPO will research, publish direction and modify any policies and procedures accordingly.
- HCA IT identified that a Network folder was accidentally deleted and therefore there was no access to the missing file. Procurement staff did collect this information prior to convening the evaluation panel, the item was missing because of a technological issue. HCA IT is reviewing procedures of storing Network Files to prevent this in the future.

Finding # 3 - Requisition System User Access Review
- HCA concurs with this finding and has standardized processes that align with the Centralized Procurement transition. At the time of the audit, the Procurement Unit managed user access in OC Expediter. This responsibility has transitioned to PCS Operations Unit to ensure compliance and centralize processes that affect the entire Department. PCS intends to incorporate this review in HCA's Annual Fiscal Year End processes, to be completed annually prior to June 30.
- HCA has checks and balances built into the processing of OC Expediter User Access that requires ARAs be updated with Final Approval permissions, prior to adding that access in

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OC Expediter. The only HCA staff that have Final Approval without their ARA reflecting that, are those that were grandfathered in prior to requirement. CPO maintains the list and reviews this during their compliance audit/review.

Thank you for your consideration,

Dr. Veronica Kelley

Dr. Veronica Kelley, LCSW
Agency Director

CC: Lorraine Daniel, Assistant Agency Director, Health Care Agency
    Anna Peters, Operations & Support Assistant Deputy Director, Health Care Agency
    Brittany Davis, Procurement Contract Manager, Health Care Agency
    Cindy Wong, Fiscal Assistant Deputy Director, Health Care Agency
    Jose Olivo, Assistant Internal Audit Director, Internal Audit Department
    Michael Dean, Assistant Deputy Director, Internal Audit Department
    Gianne Morgan, Senior Audit Manager, Internal Audit Department
    Alejandra Luna, Audit Manager, Internal Audit Department
    Gabriela Cabrera, Administrative Services Manager, Internal Audit Department