



INTERNAL AUDIT DEPARTMENT



Internal Control Audit: Health Care Agency Purchasing

For the Year Ended April 30, 2019

Audit No. 1819

Report Date: March 23, 2020

Number of Recommendations

0

Critical Control
Weaknesses

0

Significant Control
Weaknesses

2

Control Findings

OC Board of Supervisors

CHAIRWOMAN MICHELLE STEEL
SECOND DISTRICT

VICE CHAIRMAN ANDREW DO
FIRST DISTRICT

SUPERVISOR DONALD P. WAGNER
THIRD DISTRICT

SUPERVISOR DOUG CHAFFEE
FOURTH DISTRICT

SUPERVISOR LISA A. BARTLETT
FIFTH DISTRICT



INTERNAL AUDIT DEPARTMENT

Internal Control Audit:
Health Care Agency Purchasing

March 23, 2020

AUDIT HIGHLIGHTS

SCOPE OF WORK	Perform an Internal Control Audit of the Health Care Agency (HCA) Purchasing process for the year ended April 30, 2019.						
RESULTS	<ul style="list-style-type: none"> We concluded that HCA's internal control over the purchasing process is generally effective to ensure requisitions and purchase of goods and services are executed in accordance with management's directives; adequately supported and properly authorized; and properly recorded. We concluded that the purchasing process is generally efficient. 						
RISKS IDENTIFIED	<p>As a result of our findings, potential risks include:</p> <ul style="list-style-type: none"> Unauthorized access or changes to requisitions. Untimely review of user access. Inconsistent methods of purchasing. 						
<p>NUMBER OF RECOMMENDATIONS</p> <table border="1" data-bbox="99 1388 394 1690"> <tr> <td data-bbox="99 1388 203 1497">0</td> <td data-bbox="203 1388 394 1497">CRITICAL CONTROL WEAKNESSES</td> </tr> <tr> <td data-bbox="99 1497 203 1606">0</td> <td data-bbox="203 1497 394 1606">SIGNIFICANT CONTROL WEAKNESSES</td> </tr> <tr> <td data-bbox="99 1606 203 1690">2</td> <td data-bbox="203 1606 394 1690">CONTROL FINDINGS</td> </tr> </table>	0	CRITICAL CONTROL WEAKNESSES	0	SIGNIFICANT CONTROL WEAKNESSES	2	CONTROL FINDINGS	<p>Opportunities for enhancing internal control include:</p> <ul style="list-style-type: none"> Maintaining access to only authorized personnel. Retaining adequate documentation when user access reviews are performed. Ensuring internal policy and procedures regarding purchasing are properly updated and reviewed.
0	CRITICAL CONTROL WEAKNESSES						
0	SIGNIFICANT CONTROL WEAKNESSES						
2	CONTROL FINDINGS						

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



INTERNAL AUDIT DEPARTMENT

Audit No. 1819

March 23, 2020

To: Richard Sanchez, Director
Health Care Agency

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

Subject: Internal Control Audit: Health Care Agency Purchasing

We have completed an Internal Control Audit of the Health Care Agency (HCA) Purchasing process for the year ended April 30, 2019. Details of our results and recommendations immediately follow this letter. Additional information including background and our objectives, scope, and methodology are included in Appendix A.

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

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

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

Attachments

Other recipients of this report:

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

RESULTS

BUSINESS PROCESS & INTERNAL CONTROL STRENGTHS

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

- ✓ Requisitions are completed and approved by appropriate staff for every expenditure.
- ✓ HCA Purchasing uses an internal Contract Checklist to ensure all pertinent procurement steps are completed for each contract.
- ✓ Procurement files are kept in folders with assigned numbers and retained for 7 years as required.
- ✓ Solicitations are posted in the BidSync system.
- ✓ Bids are scored by an evaluation panel. Panel members sign off on the scoring and a recommendation memo.
- ✓ Board approval, if applicable, is obtained prior to execution of a contract award.
- ✓ Procurement folders are kept on-site in a key-locked file room accessible only to Purchasing managers and supervisors.
- ✓ Selected vendors go through a sanction screening and security vetting process.
- ✓ HCA participates in the County Procurement Office's annual compliance review process.

FINDING NO. 1

User Access Review

HCA Purchasing implemented an annual review of OC Expediter users beginning in December 2018. The Purchasing Operations Manager e-mails department units a report of current users for verification. Any discrepancies are reported back, and user access is updated accordingly. We noted that, although HCA stated an annual review was performed, documentation of the review was not retained. In addition, we identified three employees that retained "Final Approver" user roles within OC Expediter when access was no longer required; one of those employees retired and two employees are no longer with the agency. HCA removed access for two employees two months after separation and will remove access for the third.

Subsequent to our review, HCA provided documentation of requests sent to respective units in December 2019 to confirm Expediter users and roles.



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CATEGORY	Control Finding
RISK	Given the heightened risk associated with cybersecurity, not disabling inactive accounts increases the risk of unauthorized access. This can also cause delays in processing requisitions if they are routed to incorrect personnel. Finally, not retaining documentation of the user access reviews can lead to the review not being performed timely or properly.
RECOMMENDATION	HCA management should ensure: A. User access to Expediter is maintained only for authorized personnel. B. Adequate documentation of user access reviews is maintained.
MANAGEMENT RESPONSE	Concur. In accordance with existing procedure for an annual review of OC Expediter users implemented in December 2018, HCA performed a review of the OC Expediter users and roles in December 2019 and removed users and roles no longer required. The HCA OC Expediter Governance representative will maintain documentation of the review. HCA will continue to perform a review and assessment of OC Expediter users and roles on an annual basis and will maintain documentation of the review.

FINDING NO. 2	Internal Policy and Procedures
	HCA has internal policy and procedures (P&Ps) covering the purchasing process, such as requisitions, request for proposals, sole source, and price agreements. Although these P&Ps provide uniform guidance for purchasing, many of them were outdated. We identified six P&Ps whose last revision dates ranged from 2004 to 2012. Several P&Ps also referenced an outdated version of the County Contract Policy Manual. HCA is currently updating these P&Ps.
CATEGORY	Control Finding
RISK	Outdated procedures could result in inconsistent methods of purchasing and an increased risk of non-compliance with County P&Ps.
RECOMMENDATION	HCA management ensure internal policy and procedures regarding purchasing are properly updated and reviewed.
MANAGEMENT RESPONSE	Concur. HCA will finalize revisions of the HCA procurement policies and procedures (P&Ps) by July 31, 2020 and review the P&Ps on an annual basis to make any necessary updates.



INTERNAL AUDIT DEPARTMENT

AUDIT TEAM	Scott Suzuki, CPA, CIA, CISA, CFE Michael Dean, CPA, CIA, CISA Zan Zaman, CPA, CIA Gianne Morgan, CIA	Assistant Director Senior Audit Manager Audit Manager Audit Manager
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APPENDIX A: ADDITIONAL INFORMATION

OBJECTIVES	<p>Our audit objectives were to:</p> <ol style="list-style-type: none"> 1. Evaluate the effectiveness of internal control over the purchasing process to ensure requisitions and purchase of goods are executed in accordance with management’s directives; adequately supported and properly authorized; and properly recorded. 2. Review the purchasing process for efficiency.
SCOPE & METHODOLOGY	<p>Our audit scope was limited to internal control over the HCA Purchasing process for the year ended April 30, 2019. Our methodology included inquiry, observation, and examination of documentation.</p>
EXCLUSIONS	<p>Our audit scope did not include a review of human services contracts.</p>
PRIOR AUDIT COVERAGE	<p>An audit with similar scope, Internal Control Audit: Health Care Agency/Public Guardian Procurement Process for Human Services Contract, Audit No. 1631, was issued on December 6, 2018.</p>
BACKGROUND	<p>HCA’s Purchasing Division within Administrative Services is comprised of the Purchasing Operations unit and the Compliance unit.</p> <p>The Purchasing Operations unit uses the bidding process and provides oversight of contracted non-human services and commodities. The Compliance unit is responsible for petty cash, Cal-Cards, travel, procurement compliance, and asset management.</p> <p>HCA Purchasing processed a total of \$53.7 million in requisitions in FY 2017-18.</p> <p>During the audit period, the total order amount for HCA Purchasing was approximately \$61 million.</p> <p>County Contract Policy Manual (CPM) The CPM was adopted by the Board of Supervisors (Board) on July 24, 2012. It provides general procurement policy and standards that govern the conduct of the County’s procurement activities and of personnel engaged in these activities. The CPM was updated and adopted by the Board on June 6, 2017 and again on June 26, 2018. The 2018 CPM, which became effective July 1, 2018 was used as the criteria for this audit.</p>



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PURPOSE & AUTHORITY	We performed this audit in accordance with the Annual Risk Assessment & Audit Plan for FY 2019-20 approved by the Audit Oversight Committee (AOC) and Board of Supervisors (Board).
PROFESSIONAL STANDARDS	Our audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing issued by the International Internal Audit Standards Board.
FOLLOW-UP PROCESS	<p>In accordance with professional standards, the Internal Audit Department has a process to follow-up on its recommendations. A first follow-up audit will generally begin six months after release of the initial report.</p> <p>The AOC and Board expect that audit recommendations will typically be implemented within six months or sooner for significant and higher risk issues. A second follow-up audit will generally begin six months after release of the first follow-up audit report, by which time all audit recommendations are expected to be implemented. Any audit recommendations not implemented after the second follow-up audit will be brought to the attention of the AOC at its next scheduled meeting.</p> <p>A Follow-Up Audit Report Form is attached and is required to be returned to the Internal Audit Department approximately six months from the date of this report in order to facilitate the follow-up audit process.</p>
MANAGEMENT'S RESPONSIBILITY FOR INTERNAL CONTROL	In accordance with the Auditor-Controller's County Accounting Manual Section S-2 Internal Control Systems: "All County departments/agencies shall maintain effective internal control systems as an integral part of their management practices. This is because management has primary responsibility for establishing and maintaining the internal control system. All levels of management must be involved in assessing and strengthening internal controls." Control systems shall be continuously evaluated by Management and weaknesses, when detected, must be promptly corrected. The criteria for evaluating internal controls is the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control – Integrated Framework. Our Internal Control Audit enhances and complements, but does not substitute for department management's continuing emphasis on control activities and monitoring of control risks.
INTERNAL CONTROL LIMITATIONS	Because of inherent limitations in any system of internal control, errors or irregularities may nevertheless occur and not be detected. Specific examples of limitations include, but are not limited to: resource constraints, unintentional errors, management override, circumvention by collusion, and poor judgment. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or the degree of compliance with the procedures may deteriorate. Accordingly, our audit would not necessarily disclose all weaknesses in the department's operating procedures, accounting practices, and compliance with County policy.



APPENDIX B: FINDING TYPE CLASSIFICATION

Critical Control Weakness	Significant Control Weakness	Control Finding
<p>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.</p>	<p>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.</p>	<p>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.</p>



APPENDIX C: HEALTH CARE AGENCY MANAGEMENT RESPONSE



OFFICE OF THE DIRECTOR

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FAX: (714) 834-5506

February 10, 2020

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

SUBJECT: Response – Audit No. 1819: Health Care Agency Purchasing

The Health Care Agency (HCA) has received the draft report of the Internal Control Audit of the Health Care Agency Purchasing for the year ended April 30, 2019, Audit No. 1819. As requested, the following narrative summarizes the two (2) control findings and responses from HCA's management.

Finding No. 1 – User Access Review (Control Finding)

HCA Purchasing implemented an annual review of OC Expediter users beginning in December 2018. The Purchasing Operations Manager emails department units a report of current users for verification. Any discrepancies are reported back and user access is updated accordingly. We noted that, although HCA stated an annual review was performed, documentation of the review was not retained. In addition, we identified three employees that retained "Final Approver" user roles within OC Expediter when access was no longer required; one of those employees retired and two employees are no longer with the agency. HCA removed access for two employees two months after separation and will remove access for the third.

Subsequent to our review, HCA provided documentation of requests sent to respective units in December 2019 to confirm Expediter users and roles.

Recommendation No. 1:

HCA should ensure:

- A. User access to Expediter is maintained only for authorized personnel.*
- B. Adequate documentation of user access reviews is maintained.*

Health Care Agency Management Response No. 1:

Concur. In accordance with existing procedure for an annual review of OC Expediter users implemented in December 2018, HCA performed a review of the OC Expediter users and roles in December 2019 and removed users and roles no longer required. The HCA OC Expediter Governance representative will maintain documentation of the review. HCA will continue to perform a review and assessment of OC Expediter users and roles on an annual basis and will maintain documentation of the review.

INTERNAL AUDIT DEPARTMENT

Aggie Alonso, CPA, CIA, CRMA, Director
Response – Audit No. 1819: Health Care Agency Purchasing
February 10, 2020
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Finding No. 2 – Internal Policies and Procedures (Control Finding)

HCA has internal policies and procedures (P&Ps) covering the purchasing process, such as requisitions, request for proposals, sole source, and price agreements. Although these P&Ps provide uniform guidance for purchasing, many of them were outdated. We identified six P&Ps whose last revision dates ranged from 2004 to 2012. Several P&Ps also referenced an outdated version of the County Contract Policy Manual. HCA is currently updating these P&Ps.

Recommendation No. 2:

HCA ensure internal policies and procedures regarding purchasing are properly updated and reviewed.

Health Care Agency Management Response No. 2:

Concur. HCA will finalize revisions of the HCA procurement policies and procedures (P&Ps) by July 31, 2020 and review the P&Ps on an annual basis to make any necessary updates.

The Health Care Agency appreciates the efforts made by Internal Audit and the courtesy extended to staff involved to ensure the procurement processes have adequate internal controls and are in compliance to County policies and procedures. Should you have any further questions, please contact Maria Pirona, HCA Contract Services Division Manager, at (714) 834-6110.

Thank you.



Richard Sanchez, Director

RS:ew

cc: Frank Kim, County Executive Officer
Lala Ragen, Assistant Deputy Chief Operating Officer, County Executive Office
Scott Suzuki, CPA, CIA, CISA, Assistant Director, Internal Audit Department
Michael Dean, Senior Audit Manager, Internal Audit Department
Lilly Simmering, Assistant Director, Health Care Agency
Anna Peters, Director, Administrative Services, Health Care Agency
Maria Pirona, Division Manager, Contract Services, Health Care Agency
Cindy Wong, HCA Accounting Manager, Auditor-Controller

