

# Internal Audit Department

O R A N G E County in the USA  
6<sup>th</sup> Largest

## Internal Control & Compliance Audit: OC PUBLIC WORKS SOLE SOURCE CONTRACTS

For the Period July 1, 2009  
through June 30, 2012

### Key Control Audit

OC Public Works/Procurement Services awarded twenty-three (23) purchase order sole source contracts totaling \$941,000, and thirty-five (35) master agreement sole source contracts totaling \$2.7 million during the three-year audit period.

We audited OCPW's sole source contracts to ensure compliance with the County's Contract Policy Manual and OCPW's policies and procedures.

Our audit found OCPW's sole source contracts are overall in compliance with the County's Contract Policy Manual and internal policies and procedures, with some exceptions noted. We identified **four (4) Control Findings** to enhance controls and processes to ensure on-going compliance with the Contract Policy Manual.

AUDIT No: 1225-C  
REPORT DATE: FEBRUARY 19, 2014

**Director:** Dr. Peter Hughes, MBA, CPA, CIA  
Senior Audit Manager: Michael Goodwin, CPA, CIA  
Audit Manager: Winnie Keung, CPA, CIA

#### RISK BASED AUDITING

GAO & IIA Peer Review Compliant – 2001, 2004, 2007, 2010



American Institute of Certified Public Accountants Award to Dr. Peter Hughes as 2010 Outstanding CPA of the Year for Local Government

GRC (Government, Risk & Compliance) Group 2010 Award to IAD as MVP in Risk Management



2009 Association of Certified Fraud Examiners' Hubbard Award to Dr. Peter Hughes for the Most Outstanding Article of the Year – Ethics Pays



2008 Association of Local Government Auditors' Bronze Website Award



2005 Institute of Internal Auditors' Award to IAD for Recognition of Commitment to Professional Excellence, Quality, and Outreach



ORANGE COUNTY BOARD OF SUPERVISORS' **Internal Audit Department**

*GAO & IIA Peer Review Compliant - 2001, 2004, 2007, 2010*

*Providing Facts and Perspectives Countywide*

**RISK BASED AUDITING**

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Director

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**OC Fraud Hotline (714) 834-3608**



## Transmittal Letter



**Audit No. 1225-C February 19, 2014**

**TO:** Shane L. Silsby, P.E., Director  
OC Public Works

**FROM:** Dr. Peter Hughes, CPA, Director  
Internal Audit Department

**SUBJECT:** Internal Control & Compliance Audit:  
OC Public Works Sole Source Contracts

We have completed an Internal Control & Compliance Audit of OC Public Works' Sole Source Contracts for the period July 1, 2009 through June 30, 2012. We performed this audit in accordance with our *FY 2012-13 Audit Plan and Risk Assessment* approved by the Audit Oversight Committee and the Board of Supervisors. Our final report is attached for your review.

Please note we have a structured and rigorous **Follow-Up Audit** process in response to recommendations and suggestions made by the Audit Oversight Committee (AOC) and the Board of Supervisors (BOS). Our **First Follow-Up Audit** will begin at six months from the official release of the report. A copy of all our Follow-Up Audit reports is provided to the BOS as well as to all those individuals indicated on our standard routing distribution list.

The AOC and BOS expect that audit recommendations will typically be implemented within six months and often sooner for significant and higher risk issues. Our **Second Follow-Up Audit** will begin at six months from the release of the first Follow-Up Audit report, by which time **all** audit recommendations are expected to be addressed and implemented. At the request of the AOC, we are to bring to their attention any audit recommendations we find still not implemented or mitigated after the second Follow-Up Audit. The AOC requests that such open issues appear on the agenda at their next scheduled meeting for discussion.

We have attached a **Follow-Up Audit Report Form**. Your department should complete this template as our audit recommendations are implemented. When we perform our first Follow-Up Audit, we will need to obtain the completed form to facilitate our review.

Each month I submit an **Audit Status Report** to the BOS where I detail any material and significant audit findings released in reports during the prior month and the implementation status of audit recommendations as disclosed by our Follow-Up Audits. Accordingly, the results of this audit will be included in a future status report to the BOS.

As always, the Internal Audit Department is available to partner with your staff so that they can successfully implement or mitigate difficult audit recommendations. Please feel free to call me should you wish to discuss any aspect of our audit report or recommendations. Additionally, we will request your department complete a **Customer Survey** of Audit Services. You will receive the survey shortly after the distribution of our final report.

Other recipients of this report are listed on the **OC Internal Auditor's Report** on page 6.

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OC Public Works Sole Source Contracts  
Audit No. 1225-C*

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**Audit No. 1225-C**

**February 19, 2014**

TO: Shane L. Silsby, P.E., Director  
OC Public Works

FROM: Dr. Peter Hughes, CPA, Director  
Internal Audit Department

SUBJECT: Internal Control & Compliance Audit:  
OC Public Works Sole Source Contracts

## Audit Highlight

The Countywide policy for awarding sole source contracts is **Contract Policy Manual Section 4.4** that states "It is the policy of the County of Orange to solicit competitive bids and proposals for its procurement requirements. Sole source procurement shall not be used unless there is clear and convincing evidence that only one source exists to fulfill the County's requirements.

We audited **eighteen (18) of fifty-eight (58) sole source contracts (31%) totaling \$1.7 million** to evaluate compliance with the County's Contract Policy Manual and OCPW policies and procedures. OCPW's sole source contracts are processed in Procurement Services.

Our audit identified **four (4) Control Findings** to improve controls and processes to ensure further compliance with Contract Policy Manual requirements and OC Public Works' internal policies and procedures.

## OBJECTIVES

In accordance with our *FY 2012-13 Audit Plan and Risk Assessment* approved by the Audit Oversight Committee and the Board of Supervisors, we conducted an Internal Control & Compliance Audit of OC Public Works (OCPW) **Sole Source Contracts**.

Our audit included obtaining an understanding of internal controls over sole source contract processes and determining compliance with the County's Contract Policy Manual and OCPW policies and procedures; and evaluating process efficiencies and effectiveness. Our audit was conducted in accordance with professional standards established by the Institute of Internal Auditors. The objectives of this audit were to:

1. Assess OCPW's compliance with the County's Contract Policy Manual and with OCPW policies and procedures regarding the awarding of sole source contracts.
2. Determine if OCPW's sole source processes are efficient and effective (e.g., no backlogs, duplication of work or manual processes that could be automated).

## RESULTS

**Objective #1:** Our audit found that OCPW sole source contracts are overall in compliance with the County's Contract Policy Manual and internal policies and procedures. We identified **four (4) Control Findings** where controls and processes can be enhanced to ensure on-going compliance with the Contract Policy Manual and internal policy.

**Objective #2:** Our audit did not note any instances of duplication of work or processes that could be automated for OCPW's sole source contracts. No findings were identified under this objective.

The following table summarizes our findings and recommendations for this audit. See further discussion in the *Detailed Results, Findings, Recommendations and Management Responses* section of this report. See *Attachment A* for a description of Report Item Classifications.

# OC Internal Auditor's Report



Finding No.	Finding Classification (see Attachment A)	Finding and Page No. in Audit Report	Recommendation	Concurrence by Management
1.	<b>Control Finding</b>	<u>Missing Sole Source Forms</u> : Two instances (11%) where Sole Source Justification Forms were not prepared and retained when the sole source contracts were created (pg. 8).	Evaluate the current procedure and the need to develop a checklist to ensure all sole source contracts are prepared in compliance with the CPM.	Yes
2.	<b>Control Finding</b>	<u>Justification Criteria Not Clearly Explained</u> : Eight instances (44%) where sole source justification criteria did not clearly explain or justify how the vendor's prices or fees compared to the general market (pg. 8-9).	Provide additional explanation or attach quotes if available, on the sole source justification form of comparable services and supplies in the general market.	Yes
3.	<b>Control Finding</b>	<u>Sole Source Authorization</u> : OCPW Procurement Services used manual Authorized Signature Lists instead of using CAPS+ Access Request Forms to authorize individuals to approve sole source contracts. In addition, some of the manual Authorized Signature Lists were not updated timely to reflect fund/budget changes resulting from the implementation of CAPS+ (pg. 9-10). ( <b>Note</b> : This is a procedural issue and did not alter or weaken the integrity of the procurements.)	OCPW evaluate converting the existing Authorized Signature Lists for sole source authorization to CAPS+ Access Request Forms, and establish policies and procedures to update the Access Request Forms in a timely manner when employees' duties and responsibilities change.	Yes
4.	<b>Control Finding</b>	<u>County Procurement Office Approval Not Obtained</u> : A sole source service contract in the amount of \$234,883 did not have an approval from County Procurement Office in Bidsync (pg. 10).	Establish policies and procedures to ensure contracts exceeding \$50,000 are properly forwarded to County Purchasing Office for approval.	Yes



## BACKGROUND

The primary mission of OC Public Works (OCPW) is to “protect and enrich the community through efficient delivery and maintenance of public works infrastructure, planning and development services.” OC Public Works accomplishes its missions and strategic objectives through a dedicated professional workforce that is organized in the following four divisions:

### 1. OC Engineering

Protects the public from the threat of floods by designing, constructing and operating major flood control channels, dams, retarding basins, and pump stations. The division also provides design, construction and maintenance in managing a road system in unincorporated areas and cities. OC Engineering includes **OC Flood, OC Road, OC Operations & Maintenance, OC Inspection, OC Survey, OC Watersheds, and Project Management.**

### 2. OC Facilities

Provides the public and other County departments with support services that include leasing and building maintenance, parking facility administration, facilities operations, and Public Works projects. OC Facilities includes **OC Facilities Operations** and **OC Fleet Services.**

### 3. OC Planning

Protects public safety and the environment by providing planning, environmental analysis, zoning, grading and building services in incorporated areas. OC Planning develops and implements water quality improvement strategies, enforces agricultural weed abatement and pesticide regulations; and implements weights and measures, and includes **OC Community Development, OC Planned Communities, and OC Agricultural Commissioner.**

### 4. Administrative Services

This division is responsible for supporting all OCPW divisions by providing accounting, finance, information technology, procurement services, strategic planning and legislation, internal controls, communication, and policies and procedures.

**County's Contract Policy Manual.** The California Government Code authorizes the County Board of Supervisors to employ a **County Purchasing Agent** to perform certain duties on behalf of the County. Under the direction of the County Purchasing Agent, employees are trained and deputized as Deputy Purchasing Agents to perform in the County Purchasing Agent's capacity. Within the County Executive Office is the **County Procurement Office (CPO)** where the County Purchasing Agent administers procedures and methods over purchasing. A **Contract Policy Manual (CPM)**, updated July 2012, defines general responsibilities, rules and procedures, types of contracts, and methods of solicitation for County procurement. Our three-year audit period included sole source contracts subject to requirements under the 2007 CPM.

**Sole Source and Proprietary Requests.** The 2007 CPM, Section 4.4 states “*It is the policy of the County of Orange to solicit competitive bids and proposals for its procurement requirements. Sole source procurement shall not used unless there is clear and convincing evidence that only one source exists to fulfill the County's requirements. All sole source purchases requiring Board of Supervisors approval shall be justified as meeting the sole source standard in the Agenda Staff Report. The Agenda Staff Report shall clearly state that the procurement is a sole source procurement. The Sole Source Justification shall be attached to or included within the Agenda Staff Report.*”



**Sole Source Justification Requirements.** Formal justification using a *Sole Source/Proprietary Request* form is required for sole source procurements when competitive bid guidelines require pricing from competing firms. This form will be prepared by the user agency/department and approved by the agency/department head or designee. According to the 2007 CPM, the requestor shall clearly explain on the sole source justification form:

1. Why the particular source is the only one capable of providing the required goods or services.
2. If any other sources have been contacted and why they cannot fulfill the County's requirements.
3. If the price and contract conditions being offered are within market guidelines.
4. How the County would fulfill its requirements if this source were not available.

**Note:** The CPM was revised in 2012. Section 4.4-102 (1) (a)–(f) now states:

- a) A detailed description of the type of contract to be established.
- b) A detailed description of services/commodities to be provided by the vendor.
- c) Why the recommended vendor is the only one capable of providing the required services/commodities and include back-up information to support the justification.
- d) Identify other sources that have been contacted and explain in detail why they cannot fulfill the County's requirements.
- e) How the recommended vendor's process or fees compare to the general market and attach quotes for comparable services and supplies, if available.
- f) How the County would accomplish this particular task if the recommended vendor could not provide the product or service.

Per both CPMs, valid sole source justification should contain "strong technological or strong programmatic justification." The CPM states that if a contractor develops a particular expertise through demonstrated past performance which has been investigated and determined to be satisfactory in this area of expertise, then such contractor may be awarded a subsequent contract for any related work. Such contracts may be designated as an exclusive contractor if the County would be adversely affected by bringing in another vendor who would be required to meet the expert contractor's level of expertise and existing knowledge and involvement in a specific project.

**OC Public Works' Sole Source Contracts.** All OCPW's sole source contracts are processed in Procurement Services. Sole source requests are initiated in the OCPW divisions and in Procurement Services. Sole source contracts are processed as either a one-time Purchase Order or a Master Agreement, which are procurement documents that agencies/departments use when establishing contracts for goods and services. A Deputy Purchasing Agent (DPA) in Procurement Services determines the types of procurement documents to use based on the following criteria:

- Purchase Order: 1) Procurement amount exceeds department CalCard or Petty Cash thresholds; 2) amount is fully encumbered; and 3) payments may or may not be made over a specific period of time. Purchase Orders have contract numbers beginning with PO or CT.
- Master Agreement: 1) Procurement requires Board of Supervisors' Approval; or 2) it has renewal period. Master Agreements have contract numbers beginning with MA.

The requesting OCPW division/unit is responsible for preparing the sole source request, conducting research (e.g. other vendors capable of performing service, reasonableness of pricing), and submitting the Sole Source/Proprietary Request form (Form) for review and approval by Procurement Services. Upon receipt of sole source requests, a DPA in Procurement Services evaluates the *Sole Source Justification* form to determine whether or not it contains strong technological or strong programmatic justification and the contract is a true sole source request.





Between July 1, 2009 and June 30, 2012, OCPW awarded the following sole source contracts:

Sole Source Contracts	Number of Contracts	Value
Purchase Order (PO and CT)	23	\$941,336
Master Agreement (MA)	35	\$2,691,967
<b>Total</b>	<b>58</b>	<b>\$3,633,303</b>

## SCOPE AND METHODOLOGY

Our audit included sole source contracts with a contract or renewal date effective between July 1, 2009 and June 30, 2012. Our scope and methodology included:

1. Determining the audit population of OCPW's sole source contracts. Our audit found there were **fifty-eight (58) sole source contracts awarded** during the audit period totaling **\$3.6 million**.
2. Obtaining an understanding of the sole source contract processes and controls in OCPW Procurement Services that help ensure compliance to the Contract Policy Manual.
3. **Testing a sample of 18 sole source contracts** (31% of contracts) **totaling \$1.7 million** to assess compliance with the requirements with the Contract Policy Manual and OC Public Works' internal policies and procedures. Our sole source contracts sample included both purchase orders and master agreements.
4. Assessing the explanations and support provided on sole source justification criteria that would convince a third-party reviewer of the adequacy and propriety of the sole source justification.
5. **Interviewing four (4) Deputy Purchasing Agents** in OCPW Procurement Services involved with awarding of sole source contracts to determine if controls or processes were bypassed, and/or if sole source contracts were used to circumvent normal procurement methods.

## SCOPE EXCLUSIONS

We did not review the IT controls for any OCPW systems used in the processing and awarding of sole source contracts. Also, we excluded contracts that were coded as sole source in CAPS+ for purpose of encumbering or processing a one-time payment, (e.g. settlements). We determined these were not true sole source contracts but were coded as sole source in CAPS+ due to system constraints.

## Management's Responsibilities for Internal Controls

In accordance with the Auditor-Controller's County Accounting Manual Procedure, 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 an entity's internal control structure is the Committee of Sponsoring Organizations (COSO) control framework. Our Internal Control Audit enhances and complements, but does not substitute for OC Public Works' continuing emphasis on control activities and self-assessment of control risks.

## Inherent Limitations in Any System of Internal Control

Because of inherent limitations in any system of internal controls, errors or irregularities may 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 OC Public Works' operating procedures, practices, and compliance with County policy.



## Acknowledgment

We appreciate the courtesy extended to us by OC Public Works during our audit. If we can be of further assistance, please contact me directly at 834-5475 or Michael Goodwin, Senior Audit Manager at 834-6066.

## Attachments

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

- Members, Board of Supervisors
- Members, Audit Oversight Committee
- Michael B. Giancola, County Executive Officer
- Mark Denny, Chief Operating Officer, CEO
- Jessica O'Hare, Assistant to the Chief Operating Officer, CEO
- Mary Fitzgerald, Director, Administrative Services/OCPW
- Ron Vienna, Manager, Procurement and Special Services/OCPW
- Randi Dunlap, Manager, Policy and Compliance/OCPW
- JC Squires, Manager, Central Quality Assurance, OCPW
- Rob Richardson, County Purchasing Agent, CEO/County Procurement Office
- Foreperson, Grand Jury
- Susan Novak, Clerk of the Board of Supervisors
- Macias, Gini & Co. LLP, County External Auditor



**Audit Objective #1:** Assess OCPW's compliance with the County's Contract Policy Manual and with OCPW policies and procedures regarding the awarding of sole source contracts.

## AUDIT STEPS AND RESULTS

To accomplish this objective, we performed the following audit steps:

- ✓ Obtained an understanding of sole source contract processes and related internal controls to ensure compliance with the CPM through interviews and review of documents.
- ✓ Obtained an understanding of the requirements in both the 2007 and 2012 versions of the CPM for sole source contracts.
- ✓ Tested a sample of **18 sole source contracts totaling \$1.7 million** to assess compliance with CPM requirements. The attributes we tested included:
  1. Verified that a Sole Source Justification Form was prepared and retained as part of the contract file.
  2. Reviewed Sole Source Justification Forms to ensure they included the following (from 2007 CPM):
    - a. Why the particular source is the only one capable of providing the required goods or services.
    - b. If any other sources have been contacted and why they cannot fulfill the County requirements.
    - c. If the price and contract conditions being offered are within market guidelines.
    - d. How the County would fulfill its requirements if this source were not available.
  3. Evaluated the adequacy of the justification documentation provided on the Sole Source/Proprietary Request Form that an independent third party would agree that only one source exists to fulfill the County's requirements.
  4. Reviewed supporting documents to confirm the request has been reviewed in OC Public Works and that the Sole Source/Proprietary Request form was properly approved by the OCPW Department Head or designee.
  5. Reviewed BidSync to verify the County Procurement Office's review and approval was obtained for contracts exceeding \$50,000 threshold.
  6. Reviewed Minute Orders to verify Board of Supervisors approval was obtained for sole source contracts meeting the criteria.
  7. Selected contracts with the same vendor (regardless of service type) to determine if a contract was intentionally split to avoid approval by the Board of Supervisors or to bypass established requirements.
- ✓ Conducted **interviews with four (4) Deputy Purchasing Agents** in OCPW Procurement Services that process all sole source contracts on behalf of OCPW.

## CONCLUSION

OCPW was in overall compliance with sole source contract requirements in the County's Contract Policy Manual and internal policies and procedures with some exceptions noted. We identified **four (4) Control Findings** where processes can be improved to ensure compliance with the Contract Policy Manual. The findings and recommendations are discussed below:



## Finding No. 1 – Missing Sole Source Justification Forms (Control Finding)

### Summary

Our audit found 2 of 18 contracts tested (11%) where Sole Source Justification Forms were not found in contract files to support the original contracts as sole source. Justification forms were subsequently prepared when the contracts were either amended or renewed.

### Details

Sole Source/Proprietary Request forms were generally maintained in contract files we audited. However, we noted 2 of 18 contracts tested (11%) where Sole Source Justification Forms were not found in the contract files to support the awarding of the original contracts. Two service contracts, one beginning on January 1, 2010 (Parking Access/System Maintenance Services), and the other on May 17, 2007 (Staffing Support services – Santa Ana Heights Projects); had justification forms dated October, 28, 2011 and March 31, 2009, respectively. Based on these dates, the forms were completed when the contracts were amended or renewed after the original contracts.

The 2007 CPM Section 4.4 requires that *“formal justification for sole source procurements is required when competitive bid guidelines require pricing from competing firms. A sole source justification will be prepared by the user agency/department and approved by the agency/department head or designee. The County Purchasing Agency or Deputy County Purchasing Agent shall retain a copy of this justification as part of the contract file.”* Although the sole source justification forms were subsequently prepared to substantiate the sole source procurement, a procedure should be in place to ensure all required documents or steps are fulfilled prior to executing a sole source contract.

### Recommendation No. 1

OC Public Works ensure procedures are in place to ensure Sole Source Justification Forms are prepared and approved prior to sole source contract approval.

### OC Public Works Management Response:

**Concur** with recommendation. OCPW/Procurement will work with the Department’s Central Quality Assurance Division to determine the need for a checklist for processing sole source contracts.

## Finding No. 2 – Sole Source Justification Criteria Not Clearly Explained (Control Finding)

### Summary

In 8 of 18 (44%) contracts tested, justification criteria was not clearly explained on the Sole Source Justification Form to substantiate OCPW’s verification that price and contract conditions being offered are within market guidelines, as required by the Contract Policy Manual.

### Details

Our audit found that OCPW maintains Sole Source/Proprietary Request forms in the contract file for justifying the use of a sole source vendor. The CPM requires as part of sole source justification for the requestor to clearly explain four bulleted criteria. One criteria is to indicate *“If the price and contract conditions being offered are within market guidelines.”*

In 8 of 18 contracts we tested, the justification that vendor’s prices and contract conditions being offered were within market guidelines was not clearly explained or supported to enable an independent third-party reviewer to reach the same conclusion. In some instances, the responses were simply that prices were comparable to the general market without further explanation or attached quotes to support the statement. Sole source contracting is considered an exception, or deviation, from the County’s standard competitive bidding process. Therefore, strong justification, e.g., documented price comparisons with other cost-price analysis, is needed to ensure the department is paying a fair price.



## **Recommendation No. 2**

OC Public Works ensure that sole source justification is clearly explained for researching and comparing vendor's prices or fees to determine if they are offered within market guidelines for comparable services and supplies.

### **OC Public Works Management Response:**

**Concur** with recommendation. OCPW/Procurement will ensure that sole source justifications include quotes for similar services where available or provide additional explanation in the contract file.

## **Finding No. 3 – Sole Source Contract Authorization Forms (Control Finding)**

### **Summary**

OCPW does not utilize CAPS+ Access Request Forms (ARFs) to document authority to approve Sole Source/Proprietary Request Forms. Instead, manual Authorized Signature Lists are used. Our audit also noted some Authorized Signature Lists were not updated to reflect fund/budget changes resulting from the implementation of CAPS+.

### **Details**

Since the implementation of CAPS+ in 2009, agencies and departments are required to use CAPS+ Access Request Forms (ARFs) to document authorization approvals for CAPS+ transactions including Sole Source contract requests.

We were informed that OCPW's requisition system is not part of CAPS+; therefore, it did not utilize CAPS+ ARFs to document and verify the approval of Sole Source contracts. OCPW uses the Authorized Signature Lists for approving: 1) Purchasing Requisitions; 2) Consultant Services Requests; 3) Emergency P.O.s, and 4) Sole Source requests. Since CAPS+ ARFs also include check boxes to show these authorizations, they should be used even though OCPW's requisition system does not interface with CAPS+.

In addition, we noted instances where the Authorized Signature Lists were not updated to reflect fund/budget changes when CAPS+ was implemented in July 2009, and we were unable to verify that three (3) Sole Source/Proprietary Requests forms contained proper authorization. This resulted from a process not being in place to update changes to Authorized Signature Lists timely.

OCPW is a large department with multiple divisions and budgets; therefore, personnel changes and newly created budget controls/units should be anticipated. Documents showing changes in signature approval authority should be updated timely to reflect proper approval responsibilities.

## **Recommendation No. 3**

OC Public Works evaluate converting their existing manual Authorized Signature Lists for sole source authorization to the CAPS+ Access Request Forms, and establish policies and procedures to update the Access Request Forms in a timely manner when an employee's duties and responsibilities change.

### **OC Public Works Management Response:**

**Concur** with recommendation. OCPW is in the process of converting the existing Authorized Signature Lists to the CAPS+ Access Request Forms. As staffing changes or changes in responsibilities occur, CAPS+ Access Request Forms will be updated timely.

# Detailed Results, Findings, Recommendations and Management Responses



## Finding No. 4 – County Procurement Office Approval Not Obtained (Control Finding)

### Summary

We noted that one sole source contract exceeding \$50,000 did not have a review and approval from County Procurement Office (CPO) in Bidsync as required by the CPM.

### Details

Our audit found that CPO approvals in Bidsync were obtained for OCPW's sole source contracts exceeding \$50,000 as required in the CPM, except for one service contract in the amount of \$234,883 that was not submitted to the County Procurement Office for approval. OCPW subsequently attempted to obtain CPO approval but was denied because the contract had already expired and the approval could not be applied in Bidsync.

Section VII of the standardized Sole Source/Proprietary Request Form states that "*County Procurement Office review and approval required when the value of the sole source agreement exceeds \$50,000. Approval obtained electronically through BidSync.*" It appears to have been attributed to an oversight by OCPW at the time.

### Recommendation No. 4

OC Public Works establish policies and procedures to ensure contracts exceeding \$50,000 are properly forwarded in Bidsync for County Procurement Office approval.

### OC Public Works Management Response:

Concur with recommendation. County policy requires that all Sole Source Contracts exceeding \$50,000 be reviewed and approved by the County Procurement Office prior to submittal to the Board of Supervisors. The Purchasing Staff attend regular purchasing trainings and Best Practice Meetings provided by the County Procurement Office. In addition, a copy of the Contract Policy Manual (2012) has been provided to each purchasing staff member and the specific sole source policy discussed.

**Audit Objective #2 – Efficiency/Effectiveness:** Determine if OCPW's sole source processes are efficient and effective (e.g., no backlogs, duplication of work, manual processes that could be automated).

### AUDIT STEPS AND RESULTS

To accomplish this objective, we used auditor inquiry and observation to determine if OCPW's processes for sole source contracts were efficient and effective in the areas noted under this objective. We held meetings and conducted interviews with staff and management in OCPW Procurement Services. We conducted testing of a sample of sole source contracts. We observed and inquired of any backlogs or duplication of work in processing sole source contracts in Procurement Services.

### CONCLUSION

Our audit did not note any instances of backlogs, duplication of work or manual processes that could be automated in OCPW Procurement Services' processes for awarding sole source contracts.

**As such, we have no recommendations for this objective.**



## ATTACHMENT A: Report Item Classifications

For purposes of reporting our audit findings and recommendations, we will classify audit report items into three distinct categories:

▶ **Critical Control Weaknesses:**

These are Audit Findings or a combination of Auditing 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 their attention immediately.

▶ **Significant Control Weaknesses:**

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.

▶ **Control Findings:**

These are Audit Findings concerning internal controls, compliance issues, or efficiency/effectiveness issues that require management's corrective action to implement or enhance processes and internal controls. Control Findings are expected to be addressed within our follow-up process of six months, but no later than twelve months.



## ATTACHMENT B: OC Public Works Management Responses



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### Memorandum

**DATE:** February 4, 2014  
**TO:** Dr. Peter Hughes, Internal Audit Director  
**FROM:** Shane L. Silsby, P.E., Director, OC Public Works  
**SUBJECT:** Response to Internal Audit Report No. 1225 A-C

This memorandum provides OC Public Works' (OCPW) response to Internal Audit Report No. 1225 (A, B, & C) relating to the Control Findings and corresponding Report Recommendations.

#### A. Report No. 1225-A "Bid & Proposal Processes"

1. Recommendation No. 1 – "OC Public Works ensure Memorandums of Recommendation for proposals are signed by the entire evaluation committee and made part of the contract file as required by the Contract Policy Manual."

OC Public Works' Response: Concur with recommendation. Purchasing staff will ensure that memorandums are signed by each evaluation team member. For those situations where it is not possible to obtain all signatures on a single memorandum, staff will strive to have copies of the memorandum signed by each evaluation panel member and retain all signed originals in the Purchasing File. In the case of a missing signature, staff will document all attempts taken to obtain signatures.

2. Recommendation No. 2 – "OC Public Works establish the requirements and qualifications for staff assigned the primary role for procuring Public Works contracts and retain evidence that staff assigned this role meet these qualifications in order to facilitate a subsequent review from either OCPW Administration or a third party such as Internal Audit."

OC Public Works' Response: Concur with recommendation. OCPW Procurement will work with each appropriate Division to create a central file that includes the qualifications for each employee responsible for procuring Public Works contracts. The file would document those qualifications on an employee assignment matrix. The matrix would then be added to the project file.

3. Recommendation No. 3 – "OC Public Works evaluate whether Administrative Services should provide additional monitoring and oversight of the bid & proposal process for Public Works and A-E Service contracts."

OC Public Works' Response: Concur with recommendation. Procurement Services will, on a post award basis, periodically test a sample of the decentralized formal and informal bid and selection files to ensure they properly document compliance with County and Department policies. In addition, the Department's Central Quality Assurance Division, as an independent third party, will conduct random reviews of





## ATTACHMENT B: OC Public Works Management Responses (continued)

Public Works and A-E Service contract files to ensure compliance with County procurement procedures.

### **B. Report No. 1225-B "Change Order and Contract Amendment Processes"**

1. Recommendation No. 1 – *"OC Public Works create and maintain a policy to identify personnel authorized to approve Change Orders and Contract Amendments. This authority should be identified on the employee's CAPS+ ARF as "Department Head Delegated Authority."*

OC Public Works' Response: Concur with recommendation. OCPW/Procurement Services will document delegated authority for approving Change Orders and Contract Amendments in order to ensure that only those individuals with appropriate authority delegated by the OCPW Department Head may execute Change Orders and Contract Amendments.

2. Recommendation No. 2 – *"OC Public Works establish the requirements and qualifications for staff assigned the primary role and retain evidence that staff assigned this role meet these qualifications in order to facilitate a subsequent review from either OCPW Administration or a third party such as Internal Audit."*

OC Public Works' Response: Concur with recommendation. Change Orders relating to Public Works Contracts are vetted and approved through appropriate supervisory and management levels within OCPW and are typically subject matter experts in their respective fields. OCPW will document the experience and qualifications of the employees responsible for processing Change Orders and Contract Amendments to support their technical expertise and qualifications.

3. Recommendation No. 3 – *"OC Public Works develop standardized policies, procedures and forms for processing Change Orders and Contract Amendments in all four of its Divisions, including standard forms to be used as supporting documents for all price negotiations and independent cost analyses conducted. As part of this process, we strongly recommend management research industry best practices and retain such information as support and future reference."*

OC Public Works' Response: Concur with recommendation. OCPW will develop a departmental policy and procedure concerning the processing of Change Orders relating to Public Works contracts and Contract Amendments and ensure that appropriate documentation supporting the Change Orders and Contract Amendments are retained in the project file.

4. Recommendation No. 4 – *"OCPW/Administrative Services evaluate providing additional monitoring and oversight of the Change Orders and Contract Amendments. This can be achieved by receiving management reports regarding the numbers, dollar value, reasons and vendor, discussing such data with Division Managers, making site visits, and performing periodic compliance reviews."*



## ATTACHMENT B: OC Public Works Management Responses (continued)

OC Public Works' Response: Concur with recommendation. OC Public Works Central Quality Assurance will, on a post award basis, periodically test a sample of the decentralized change order files to ensure they properly document compliance with County and Department policies.

### C. Report No. 1225-C "OC Public Works Sole Source Contracts"

1. Recommendation No. 1 – *"OC Public Works ensure procedures are in place to ensure Sole Source Justification Forms are prepared and approved prior to sole source contract approval."*

OC Public Works' Response: Concur with recommendation. OCPW/Procurement will work with the Department's Central Quality Assurance Division to develop a written policy and procedure for processing sole source contracts.

2. Recommendation No. 2 – *"OC Public Works ensure that sole source justification is clearly explained for researching and comparing vendor's prices or fees to determine if they are offered within market guidelines for comparable services and supplies."*

OC Public Works' Response: Concur with recommendation. OCPW/Procurement will ensure that sole source justifications include quotes for similar services where available or provide additional explanation in the contract file.

3. Recommendation No. 3 – *"OC Public Works evaluate converting their existing manual Authorized Signature Lists for sole source authorization to the CAPS+ Access Request Forms, and establish policies and procedures to update the Access Request Forms in a timely manner when an employee's duties and responsibilities change."*

OC Public Works' Response: Concur with Recommendation. OCPW is in the process of converting the existing *Authorized Signature Lists* to the *CAPS+ Access Request Forms*. As staffing changes or changes in responsibilities occur, *CAPS+ Access Request Forms* will be updated timely.

4. Recommendation No. 4 – *"OC Public Works establish policies and procedures to ensure contracts exceeding \$50,000 are properly forwarded in Bidsync for County Procurement Office approval."*

OC Public Works' Response: Concur with Recommendation. County policy requires that all Sole Source Contracts exceeding \$50,000 be reviewed and approved by the County Procurement Office prior to submittal to the Board of Supervisors. The Purchasing Staff attend regular purchasing trainings and Best Practice Meetings provided by the County Procurement Office. In addition, a copy of the *Contract Policy Manual (2012)* has been provided to each purchasing staff member and the specific sole source policy discussed.

cc: Mary Fitzgerald, Deputy Director, Administrative Services  
Ron Vienna, Manager, Procurement and Special Services  
Jessica O'Hare, County Executive Office  
Theresa Stanberry, County Executive Office