



INTERNAL AUDIT DEPARTMENT



**Internal Control Audit:
Health Care Agency/Public Guardian
Procurement Process for
Human Services Contracts**

For the Fiscal Year Ended June 30, 2017

**Audit No. 1631
Report Date: December 6, 2018**

Number of Recommendations

0

**Critical Control
Weaknesses**

0

**Significant Control
Weaknesses**

2

Control Findings

OC Board of Supervisors

Chairman Andrew Do
1st District

Vice Chairman Shawn Nelson
4th District

Supervisor Michelle Steel
2nd District

Supervisor Todd Spitzer
3rd District

Supervisor Lisa Bartlett
5th District



INTERNAL AUDIT DEPARTMENT

Internal Control Audit:
Health Care Agency/Public Guardian
Procurement Process for Human Services Contracts

December 6, 2018

AUDIT HIGHLIGHTS

SCOPE OF WORK	Perform an internal control audit of the Health Care Agency/Public Guardian's (HCA) procurement process for human services contracts for the fiscal year ended June 30, 2017.						
RESULTS	<ul style="list-style-type: none"> We found that HCA's internal control over the procurement of human services contracts was generally effective to ensure compliance with HCA policies and the County's 2012 Contract Policy Manual (CPM). We found that business processes were generally efficient as related to procurement for human services contracts. 						
RISKS IDENTIFIED	<p>As a result of our findings, potential risks include:</p> <ul style="list-style-type: none"> Inadequate audit trails. Undocumented approvals. Inadequate accountability over solicitation requests. Untimely solicitation requests. 						
<p>NUMBER OF RECOMMENDATIONS</p> <table border="1" data-bbox="99 1465 393 1764"> <tr> <td data-bbox="99 1465 203 1570">0</td> <td data-bbox="203 1465 393 1570">CRITICAL CONTROL WEAKNESSES</td> </tr> <tr> <td data-bbox="99 1570 203 1675">0</td> <td data-bbox="203 1570 393 1675">SIGNIFICANT CONTROL WEAKNESSES</td> </tr> <tr> <td data-bbox="99 1675 203 1764">2</td> <td data-bbox="203 1675 393 1764">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"> Ensuring contract-related documents are retained in accordance with the County's Record Retention Schedule. Ensuring contract-related documents are properly initialed/signed and dated by applicable parties.
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. 1631

December 6, 2018

To: Richard Sanchez, Director
Health Care Agency/Public Guardian

From: Scott Suzuki, CPA, Acting Director *S Suzuki*
Internal Audit Department

Subject: Internal Control Audit: Health Care Agency/Public Guardian –
Procurement Process for Human Services Contracts

We have completed an internal control audit of the procurement process over human services contracts at the Health Care Agency/Public Guardian (HCA) for the fiscal year ended June 30, 2017. 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 of our recommendations and the Internal Audit Department considers HCA's management response appropriate.

Additionally, we will request your department to 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 personnel during our audit. If you have any questions regarding our audit, please contact Scott Suzuki, Acting Director, at 714.834.5509 or Michael Dean, Senior Audit Manager, at 714.834.4101.

Attachments

Other recipients of this report:

- Members, Board of Supervisors
- Members, Audit Oversight Committee
- Health Care Agency Distribution
- Auditor-Controller Distribution
- Foreperson, Grand Jury
- Robin Stieler, Clerk of the Board of Supervisors
- Vavrinek, Trine, Day & Co., LLP, County External Auditor

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RESULTS

BUSINESS PROCESS & INTERNAL CONTROL STRENGTHS

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

- ✓ A Solicitation Request Form was completed and approvals were documented by Program, Program Support, and Contract Services for each contract solicitation. The request documented the timeline, scope of services, contract terms, funding sources, invoice coding, and evaluation criteria.
- ✓ Solicitations were approved by the Deputy Agency Directors and the Agency Director.
- ✓ Sole Source contracts included completion of a justification form and had approval by the County Procurement Office.
- ✓ Solicitations were posted with an established timeframe and proposals were accepted in the BidSync system.
- ✓ Bids were scored by an evaluation panel. Scores were reviewed for discrepancies by Procurement staff. Panel members signed off on the scoring and recommendation memo.
- ✓ A Synopsis of Proposals detailing contract information, background, and evaluations was approved by the Deputy Agency Directors and the Agency Director before issuing a Notice of Intent to Negotiate/Award.
- ✓ Board approval, if applicable, was obtained prior to contract award.



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<p>FINDING NO. 1</p>	<p>Document Retention</p> <p>Certain documents could not be located for three of 22 (14%) contracts tested, including one Solicitation Request Form, three Solicitation Approval Forms, and one Notice of Intent to Award.</p> <p>In addition, some documents were unsigned for the three of 22 contracts tested, including two Synopsis of Proposals and two Panel Evaluation Summaries. The signed versions were not retained.</p> <p>County Accounting Manual S-2 <i>Internal Control Systems</i>, Section 3.4 states, "Independent evidence shall be maintained to document that authorizations are issued by persons acting within the scope of their authority and that transactions conform with the terms of the authorizations. Documentation shall provide an adequate audit trail."</p> <p>Furthermore, County records retention schedules provide applicable retention policies.</p>
<p>CATEGORY</p>	<p>Control Finding</p>
<p>RISK</p>	<p>Not retaining proper documentation can lead to an inadequate audit trail. Proper approvals/authorizations may not be verified.</p>
<p>RECOMMENDATION</p>	<p>We recommend HCA ensure procurement documents for human services contracts are properly retained in accordance with County record retention schedules.</p>
<p>MANAGEMENT RESPONSE</p>	<p>Concur. HCA Contract Services has implemented a Close-Out Procedure which ensures necessary documentation is retained electronically. During the solicitation process, Procurement Administrators utilize a checklist to ensure required documents are retained, including documents requiring final approval signatures. Upon completion of the solicitation, the electronic solicitation file is peer reviewed for completeness. HCA Contract Services has also recently revisited the requirements for signatures on the documents identified as well as other documents currently routed for signature approval and has deemed that signatures are unnecessary and will no longer be required on internal informational documents.</p>



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FINDING NO. 2	<p>Solicitation Request Form Fields</p> <p>For 10 of 15 (67%) Solicitation Request Forms (SRF) tested, the SRF had one or more missing initials/signatures and/or dates.</p> <p>HCA has established procedures to complete the SRF within a specified timeframe. Each group completes their section of the SRF within the specified timeframe, then electronically routes it to the next Program's applicable Administrative, Division, or Program Support Manager. Initials/signatures and dates are documented at the bottom of each section, which is completed upon routing to the next party.</p>						
CATEGORY	Control Finding						
RISK	Not properly initialing and dating the SRF decreases accountability and increases the risk of the SRF not being completed in a timely manner.						
RECOMMENDATION	We recommend HCA ensure the Solicitation Request Form (SRF) is properly initialed/signed and dated by applicable parties upon completion of each section.						
MANAGEMENT RESPONSE	<p>Concur. HCA Contract Services is in the process of transitioning from the paper version of the Solicitation Request Form (SRF) to an electronic version utilizing the County's Requisition system, OC Expediter. By utilizing OC Expediter, all approvals will be captured electronically with a time and date stamp. The Procurement team will not be assigned a solicitation until all necessary approvals have been recorded on the Requisition. HCA Contract Services anticipates a fully electronic solicitation request process including training to be completed by December 31, 2018.</p>						
AUDIT TEAM	<table border="0"> <tr> <td data-bbox="477 1331 906 1365">Michael Dean, CPA, CIA, CISA</td> <td data-bbox="1133 1331 1427 1365">Senior Audit Manager</td> </tr> <tr> <td data-bbox="477 1365 906 1398">Zan Zaman, CPA, CIA</td> <td data-bbox="1211 1365 1427 1398">Audit Manager I</td> </tr> <tr> <td data-bbox="477 1398 906 1432">Gianne Acosta, CIA</td> <td data-bbox="1230 1398 1427 1432">Senior Auditor</td> </tr> </table>	Michael Dean, CPA, CIA, CISA	Senior Audit Manager	Zan Zaman, CPA, CIA	Audit Manager I	Gianne Acosta, CIA	Senior Auditor
Michael Dean, CPA, CIA, CISA	Senior Audit Manager						
Zan Zaman, CPA, CIA	Audit Manager I						
Gianne Acosta, CIA	Senior Auditor						



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APPENDIX A: ADDITIONAL INFORMATION

OBJECTIVES	<p>Our audit objectives were to:</p> <ol style="list-style-type: none">1. Evaluate effectiveness of internal controls over the procurement of human services contracts to ensure compliance with HCA policies and the County 2012 Contract Policy Manual (CPM).2. Review human services contract procurement business processes for efficiency.
SCOPE & METHODOLOGY	<p>Our audit scope was limited to internal control and compliance with County and HCA policies over procurement of human services contracts for the fiscal year ended June 30, 2017. Our methodology included inquiry, observation, examination of documentation, and testing of relevant transactions.</p>
EXCLUSIONS	<p>Our audit scope did not include a review of procurement by HCA Purchasing Services, the contract disbursement process, or HCA information systems.</p>
PRIOR AUDIT COVERAGE	<p>We have not issued any audit reports for HCA with a similar scope within the last ten years.</p>
BACKGROUND	<p>HCA's Contract Services Division develops, solicits, negotiates, and administers human services contracts. Contract Services administers 680 contracts and memorandums of understanding (MOUs), containing multiple funding sources for different programs. Contract Services uses the bidding process and provides oversight of contracted human services and efficient & effective contract development and administration. Human services contracts for FY 2016-17 totaled \$228 million.</p> <p>County Contract Policy Manual (CPM)</p> <p>The CPM was adopted by the Board on July 24, 2012. It provides general procurement policy and standards that will govern the conduct of 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 became effective August 1, 2017. The criteria used for this audit was the 2012 CPM, since the current CPM was not in effect during our audit period.</p>



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PURPOSE & AUTHORITY	We performed this audit in accordance with the FY 2018-19 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	<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.



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APPENDIX B: REPORT ITEM CLASSIFICATIONS

Critical Control Weaknesses	Significant Control Weaknesses	Control Findings
<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>





RICHARD SANCHEZ
DIRECTOR
(714) 834-2830
Richard.Sanchez@ochca.com
405 W. 5th STREET, 7th FLOOR
SANTA ANA, CA 92701
FAX: (714) 834-5506

OFFICE OF THE DIRECTOR

December 3, 2018

TO: Scott Suzuki, CPA, Acting Director
Internal Audit Department

SUBJECT: Audit No. 1631 - Audit of Health Care Agency/Public Guardian - Procurement/Contract Administration

The Health Care Agency has received the draft report of the Audit of Health Care Agency/Public Guardian's (HCA) procurement process over human services contracts for the year ended June 30, 2017. As requested, below states the two (2) findings and recommendation from Internal Audit as well as the response from HCA's management.

Finding No. 1 – Document Retention (Control Finding)

Certain documents could not be located for three of 22 (14%) contracts tested, including one Solicitation Request Form, three Solicitation Approval Forms, and one Notice of Intent to Award.

In addition, some documents were unsigned for 3 of 22 contracts tested, including two Synopsis of Proposals and two Panel Evaluation Summaries. The signed versions were not retained.

County Accounting Manual S-2 Internal Control Systems, Section 3.4 states, "Independent evidence shall be maintained to document that authorizations are issued by persons acting within the scope of their authority and that transactions conform with the terms of the authorizations. Documentation shall provide an adequate audit trail."

Furthermore, County records retention schedules provide applicable retention policies.

Risk No. 1:

Not retaining proper documentation can lead to an inadequate audit trail. Proper approvals/authorizations may not be verified.

Recommendation No. 1:

We recommend HCA ensure procurement documents for human services contracts are properly retained in accordance with County record retention schedules.

Health Care Agency's Management Response No. 1:

Concur. HCA Contract Services has implemented a Close-Out Procedure which ensures necessary documentation is retained electronically. During the solicitation process, Procurement Administrators utilize a checklist to ensure required documents are retained, including documents requiring final approval signatures. Upon completion of the solicitation, the electronic solicitation file is peer reviewed for completeness. HCA Contract Services has also recently revisited the requirements of signatures on the documents identified as well as other documents currently routed for signature approval and has deemed that signatures are unnecessary and will no longer be required on internal informational documents.

INTERNAL AUDIT DEPARTMENT

Scott Suzuki, CPA, Acting Director
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December 3, 2018
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Finding No. 2 – Solicitation Request Forms Fields (Control Finding)

For 10 of 15 (67%) Solicitation Request Forms (SRF) tested, the SRF had one or more missing initials/signatures and/or dates.

HCA has established procedures to complete the SRF within a specified timeframe. Each group completes their section of the SRF within the specified timeframe, then electronically routes it to the next Program's applicable Administrative, Division, or Program Support Manager. Initials and dates are documented at the bottom of each section, which is completed upon routing to the next party.

Risk No. 2:

Not properly initialing and dating the SRF decreases accountability and increases the risk that the SRF is not completed in a timely manner.

Recommendation No. 2:

We recommend HCA ensure the Solicitation Request Form (SRF) is properly initialed/signed and dated by applicable parties upon completion of each section.

Health Care Agency's Management Response No. 2:

Concur. HCA Contract Services is in the process of transitioning from the paper version of the Solicitation Request Form (SRF) to an electronic version utilizing the County's Requisition system, OC Expediter. By utilizing OC Expediter, all approvals will be captured electronically with a time and date stamp. The Procurement team will not be assigned a solicitation until all necessary approvals have been recorded on the Requisition. HCA staff will receive specific training relating to the Human Services Requisition. HCA Contract Services anticipates a fully electronic solicitation request process including training to be completed by December 31, 2018.

The Health Care Agency appreciates the efforts made by Internal Audit and the courtesy extended to staff involved to ensure the procurement of human services contracts have adequate internal controls and are in compliance to County policies and procedures. Should you have any further questions, please contact Cindy Wong, HCA Accounting Manager at (714) 834-5264.
Thank you.



Richard Sanchez, Director

RS:cw

cc: Frank Kim, County Executive Officer
Lilly T. Simmering, Deputy Chief Operating Officer
Dr. Jeffrey Nagel, Deputy Agency Director, Behavioral Health
Anna Peters, Director of Administrative Services
Maria Pirona, Contract Services Division Manager
Cindy Wong, HCA Accounting Manager

