

Internal Audit Department

AUDIT OF INTERNAL CONTROLS: COUNTY EXECUTIVE OFFICE/ INFORMATION TECHNOLOGY CONTRACT ADMINISTRATION AND RELATED CONTRACT PAYMENTS

For the Year Ending
June 30, 2008

We audited the internal controls over contract administration and related contract payments at CEO/Information Technology where 387 contracts totaling \$109 million were administered and over \$17 million contract payments were made between July 1, 2007 and June 30, 2008.

We found overall internal controls and processes are in place to: (1) ensure contracts are monitored to prevent contract overruns and ordering from expired contracts; (2) contract payments are valid, supported, allowable, and processed completely, accurately and timely in accordance with County and CEO/Information Technology's policies and procedures; (3) Sole Source contracts generally contained appropriate justification and management authorization; and (4) business processes were efficient and effective.

AUDIT NO: 2827

REPORT DATE: FEBRUARY 11, 2009

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RISK BASED AUDITING

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Transmittal Letter



Audit No. 2827 February 11, 2009

TO: Satish Ajmani
Deputy CEO/Chief Information Officer

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

SUBJECT: Audit of Internal Controls:
County Executive Office/Information
Technology Contract Administration and
Related Contract Payments

We have completed an Audit of Internal Controls of the County Executive Office/Information Technology (CEO/IT) contract administration and related contract payments for the year ending June 30, 2008, in which CEO/IT administered 387 contracts totaling **\$109 million** and made over **\$17 million** in contract payments. 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). As a matter of policy, 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 approximately six months from the date of this report, we will need to obtain the completed document to facilitate our review.

Letter from Director Peter Hughes



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.

ATTACHMENTS

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

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County Executive Office/Information Technology
Contract Administration and Related Contract Payments
Audit No. 2827***

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June 30, 2008

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Audit No. 2827

February 11, 2009

Audit Highlight

We audited the internal controls over contract administration and related contract payments at CEO/Information Technology where 387 contracts totaling \$109 million were administered and over \$17 million contract payments were made between July 1, 2007 and June 30, 2008.

We found overall internal controls and processes are in place to: (1) ensure contracts are monitored to prevent contract overruns and ordering from expired contracts; (2) contract payments are valid, supported, allowable, and processed completely, accurately and timely in accordance with County and CEO/Information Technology's policies and procedures; (3) Sole Source contracts generally contained appropriate justification and management authorization; and (4) business processes were efficient and effective.

TO: Satish Ajmani
Deputy CEO and Chief Information Officer

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

SUBJECT: Audit of Internal Controls: County Executive Office/
Information Technology Contract Administration and
Related Contract Payments

OBJECTIVES

The Internal Audit Department conducted an Audit of Internal Controls of contract administration and related contract payments in County Executive Office/Information Technology (CEO/IT), which included an evaluation of the adequacy and integrity of internal controls; compliance with department and County policies, and evidence of process efficiencies and effectiveness. Our audit was conducted in accordance with professional standards established by the Institute of Internal Auditors. The four objectives of our audit were to evaluate internal controls to determine if:

1. **Contract Administration:** Contracts are administered effectively to prevent contract overruns and ordering from expired contracts through regular monitoring and communication with users of the contracts.
2. **Contract Payments:** Contract payments are valid, supported, allowable per contract terms, and are processed completely, accurately, timely, and in accordance with County and CEO/IT's policies and procedures.
3. **Sole Source Contracts:** Sole Source contracts are in compliance with *Contract Policy Manual* requirements and contain the required justification and management authorization.
4. **Efficiency/Effectiveness:** Business processes are efficient and effective as related to contract administration and related contract payments in CEO/IT.

BACKGROUND

The **County Executive Office** (CEO) is the corporate administrative branch of Orange County government. The **Office of Information Technology** within the CEO (**CEO/IT**) is responsible for countywide information technology issues, such as the IT Strategic Plan and IT security, establishing IT policies and standards, and providing governance and oversight over critical IT applications and infrastructure.



A **Chief Information Officer (CIO)** oversees CEO/IT and assists the Board of Supervisors, County management and employees in using information technology to improve their jobs and for services offered to the public. There are areas within CEO/IT responsible for customer support, contract management, financial services, strategic consulting and planning, information security, business continuity planning, portfolio management, and solutions project management. Our audit of contract administration and related contract payments was focused primarily in the areas of CEO/IT Contracts and Finance.

Contracts used in CEO/IT are recorded in **Agency 289 - Information & Technology ISF** (Internal Service Fund) and in **Agency 038 - Data Systems Development Projects**. Agency 289 is for contracts specifically used in CEO/IT. Agency 038 is for contracts involving new or special IT projects with department/agency or county-wide impact. The responsibility for administering these contracts is usually transferred from CEO/IT to another fund/agency after being established because the ownership of the projects may belong to another department/agency, such as the Auditor-Controller.

Contract Administration

CEO/IT Contracts is responsible for establishing contracts used in CEO/IT. These contracts are generally established as Price Agreements and one-time purchase orders and are primarily for purchases of commodities, services (e.g., hardware/software maintenance), capital assets, software subscriptions, and software licenses. CEO/IT administers contracts benefitting the County Executive Office exclusively for operational purposes (e.g., digital copier rentals); and contracts benefitting County departments/agencies (e.g., telephone services & products; CAPS+ upgrade.) In these instances, charges are automatically billed to department/agency users through the Copier, Utility & Telephone System (CUT) or by journal voucher.

Contract Payments

CEO/IT Finance receives contract invoices from vendors and is responsible for reviewing and approving the invoices for payment. A file is maintained for each contract, which includes a *Payment Record* for monitoring existing contract balances, and a *Contact Sheet* to document the communications between CEO/IT Finance, Contracts, programs and/or vendors. CEO/IT Finance recalculates invoices to ensure accuracy; agrees the invoice charges to contract billing rates and terms for compliance; and reviews supporting documents to validate the satisfactory receipt of contracted goods/services. Supervisory reviews of the invoices are performed to ensure completeness, accuracy and propriety of the payment approvals. CEO/IT Finance submits approved invoices to Auditor-Controller Claims & Disbursing for issuance of the payments.



Sole Source Contracts

Per the County's *Contract Policy Manual (CPM)*, it is the policy of the County to solicit competitive bids and proposals for its procurement requirements. However, the *CPM* also allows for Sole Source procurement when there is clear and convincing evidence that only one source exists to fulfill the County's requirements. The policy requires completion of a Sole Source Justification form for all Sole Source procurement requests and management authorization. During FY 2007/08, CEO/IT administered eight **(8) Sole Source contracts in Fund 038 totaling \$954,785** and seventeen **(17) Sole Source contracts in Fund 289 totaling \$7.1 million**. **Contract payments from both funds were \$5.6 million** during the audit period.

SCOPE

Our audit evaluated internal controls and processes over: (1) contract administration; (2) contract payments; and (3) Sole Source contracts under ***Agency/Fund 038 - Data Systems Development Projects and Agency/Fund 289 – Information & Technology ISF*** at CEO/IT for the year ending June 30, 2008. We also observed for process efficiency/effectiveness in these areas. Among the 387 contracts totaling \$109 million with payments over \$17 million, we audited **38 contracts (10%) totaling \$98 million (90%)** and the related payments of **\$3.5 million (21%)**. Our methodology included inquiry, auditor observation and testing of relevant documents.

SCOPE EXCLUSIONS

Our audit did not include the process of bidding and establishing contracts, or contracts from Fund 014 – CAPS Program and Fund 017 – County Executive Office because CEO/IT is not primarily responsible for administering these contracts. Also, we did not review the ACS State and Local Solutions, Inc, (ACS) contract for providing Information Technology and Telecommunications Service (main contract) for the County because an independent audit had recently been performed on this contract. However, our audit population included all other ACS contracts recorded in Fund 289 during the audit period.

RESULTS

We audited the internal controls over contract administration and related contract payments at CEO/Information Technology where 387 contracts totaling \$109 million were administered and over \$17 million contract payments were made between July 1, 2007 and June 30, 2008.

We found overall internal controls and processes are in place to: (1) ensure contracts are monitored to prevent contract overruns and ordering from expired contracts; (2) contract payments are valid, supported, allowable, and processed completely, accurately and timely in accordance with County and CEO/Information Technology's policies and procedures; (3) Sole Source contracts generally contained appropriate justification and management authorization; and (4) business processes were efficient and effective.



We identified **one (1) Significant Issue** and **seven (7) Control Findings** resulting in **eight (8) recommendations** to enhance existing controls and processes as discussed in the *Detailed Observations, Recommendations and Management Responses* section of this report. See *Attachment A* for a description of Report Item Classifications. Based upon the objectives of our audit, we noted:

- ▶ **Objective #1 – Contract Administration:** *Contracts are administered effectively to prevent contract overruns and ordering from expired contracts through regular monitoring and communication with users of the contracts.*
- ▶ **Results:** We found overall internal controls and processes in place to ensure contracts are properly monitored to prevent contract and overruns and ordering from expired contracts. We found no instances of contract overruns or ordering from expired contracts during our audit. We did note (1) **Control Finding** where CEO/IT's policy should be enhanced to clearly define responsibility for monitoring contract expirations. (See page 7 for details)
- ▶ **Objective #2 – Contract Payments:** *Contract payments are valid, supported, allowable per contract terms, and processed completely, accurately, timely, and in accordance with County and CEO/IT's policies and procedures.*
- ▶ **Results:** We found overall internal controls and processes in place to ensure contract payments are valid, supported, allowable, and processed completely, accurately and timely in accordance with County and CEO/IT's policies and procedures. We noted (4) **Control Findings** to improve controls that involve: (1) verifying the receipt of delivered items; (2) reviewing support documentation; (3) updating the *Authorization Signature List* on file with the Auditor-Controller; and (4) ensuring the accuracy of *Contract Payment Records*. (See pages 9-11 for details)
- ▶ **Objective #3 – Sole Source Contracts:** *Sole Source contracts are in compliance with Contract Policy Manual requirements and contain the required justification and management authorization.*
- ▶ **Results:** We found that CEO/IT's Sole Source contracts are generally in compliance with the *Contract Policy Manual* by containing the required justification and management authorization. Our audit noted (1) **Significant Issue** where Board of Supervisors' approval of two Sole Source contracts was not obtained, and (1) **Control Finding** regarding the review and approval of Sole Source justification requests in CEO/IT. (See pages 11-13 for details)



- ▶ **Objective #4 – Process Efficiency/Effectiveness:** *Business processes are efficient and effective as related to contract administration and related contract payments in CEO/IT.*
- ▶ **Results:** No inefficient or ineffective procedures such as backlogs or duplication of work were noted or came to our attention concerning contract administration and related contract payments. We did note (1) **Control Finding** regarding an efficiency/effectiveness issue where contractor invoices are approved in the Chief Information Office instead of CEO/IT Finance for approval. (See page 13 for details)

Management's Responsibilities for Internal Controls

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 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 Audit of Internal Controls enhances and complements, but does not substitute for CEO/IT's 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 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 CEO/IT's operating procedures, accounting practices and compliance with County policy.

Acknowledgment

We appreciate the courtesy extended to us by CEO/Information Technology. If we can be of further assistance, please contact me directly; or Eli Littner, Deputy Director at 834-5899 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
Thomas G. Mauk, County Executive Officer
Mahesh Patel, Assistant Chief Information Officer
Christina Koslosky, Finance & Contract Manager, CEO/IT
Paula Kielich, Contracts Manager, CEO/IT
Julie Nguyen, Finance Manager, CEO/IT
Foreperson, Grand Jury
Darlene J. Bloom, Clerk of the Board of Supervisors



CONTRACT ADMINISTRATION (Audit Objective #1)

We audited the contract administration processes for contracts included in **Fund 038 - Data Systems Development Projects** and **Fund 289 – Information & Technology ISF**. Our sample selection for auditing included **(15) fifteen contracts** from **Fund 038** totaling **\$7.1 million**, and **(23) twenty-three contracts** from **Fund 289** totaling **\$91.4 million**. These contracts consisted of Price Agreements and one-time purchase orders, and were selected based on the highest priced contracts.

Our objectives were to ensure contracts are appropriately monitored to prevent contract overruns and ordering from expired contracts; goods and services received are proper; are verified to contract specifications; and related contract payments are valid, supported, allowable per contract terms, and processed completely, accurately, and timely in accordance with County and CEO/IT's policies and procedures.

Our audit disclosed that overall controls are in place to prevent contract overruns and ordering from expired contract through regular monitoring and communication with the following exception below:

Observation No. 1 – Contract Monitoring for Expiration or Renewal (Control Finding)

There is no written policy in CEO/IT Contracts that establishes responsibility for monitoring and notifying users of contract renewal and expiration dates.

CEO/IT Contracts has a process to send an email with a *Notice of Expiring Agreement* to CEO/IT program managers at the user sites as a reminder for a contract extension, renewal or re-bid. However, we were informed by CEO/IT Contracts that the user division is primarily responsible for monitoring contract renewal and expiration dates, and may not always receive a completed *Notice of Expiring Agreement* email from them. CEO/IT Contracts maintains contract files for each contract they administer, and a *Contract List* that contains the vendor, type of contract, contract amount, payments made to-date, and dates for contract renewal and expiration that assists them in their monitoring and notification process.

To ensure that there is timely notification of contract renewal and expiration dates, a policy should be established that clearly identifies this responsibility. Although written procedures are not in place, CEO/IT Contracts current practice to email a *Notice of Expiring Agreement* is a good “backstop” to help prevent the unintentional expiration of contracts or lapse in services. Our audit did not disclose any unanticipated expired contracts, and did find there was appropriate notification to the contract users from CEO/IT.

Recommendation No. 1

CEO/Information Technology establish a written policy describing the responsibility for monitoring contract renewals and expiration dates.



CEO/IT Management Response:

Concur. A process for contract renewal has been documented. This process was covered in internal procurement training held for Office of the CIO staff in January 2009. A schedule will be published for Office of the CIO staff that highlights pending contract renewals for the current fiscal year. This will assist in providing the appropriate level of visibility and planning. This schedule will be finalized in February 2009.

The renewal process will be highlighted in a CEO/IT procurement manual that is in progress and will be completed in July 2009.

Observation No. 2 – Verification of Delivered Items (Control Finding)

Physical commodities received at the Data Center Warehouse are not always verified with the order placed.

All physical commodities are delivered to the Data Center Warehouse. Upon receipt of goods, the Warehouse Supervisor signs and stamps "Received" on the packing slips. This signature only indicates that a package or box was received and not that contents were verified to the order. Based on the packing slips, CEO/IT Finance approves invoice payments with the assumption all ordered goods were received.

Verification of delivery of commodities ensures completeness and accuracy of the order and provides proper validation for related contract payment. If this cannot be done at the Data Center Warehouse, a CEO/IT manager or designee should perform the verification of commodities received before any invoice payments are approved.

Recommendation No. 2

CEO/Information Technology ensure all commodities received at the Data Center Warehouse are verified and documented upon receipt. If this cannot be performed at the warehouse, measures should be taken to have other authorized individuals perform this verification.

CEO/IT Management Response:

Concur. A process has been implemented to confirm receipt and verification of commodity purchases at the Data center prior to CEO/ IT Finance payment. This process has been added to the CEO/IT Finance processes and procedure binder and all relevant staff have been trained.

CONTRACT PAYMENTS (Audit Objective #2)

CEO/IT Finance processes all CEO/IT contract invoices and monitors for contract overruns by maintaining a payment file for each contract. Included in the payment file is a *Payment Record* to monitor prior payments and remaining contract balances, and a *Contact Sheet* to document any communications between CEO/IT Finance, Program Operations, and/or vendors.



Contract invoices are sent directly to CEO/IT Finance for payment. Prior to approving payments, CEO/IT Finance may request verification and approval from CEO/IT program managers for services performed, and for commodities if a packing slip is not available. Invoices are recalculated to ensure accuracy and billing rates and terms are agreed to the applicable contract to ensure propriety of the invoice. Supervisory reviews are performed on the invoices and supporting documents as a double check, and an Administrative Manager in CEO/IT Finance provides final review and approval before forwarding it to the Auditor-Controller for payment.

As noted above, we audited **(15) fifteen contracts** from **Fund 038** and **(23) twenty-three contracts** from **Fund 289**. The sample contract payments we tested totaled **\$1.6 million** from Fund 038 and **\$1.8 million** from Fund 289.

Our audit of the contract payment process disclosed that overall controls are in place to ensure contract payments are valid, supported, allowable per contract terms, and processed completely, accurately, timely, and in accordance with County and CEO/IT's policies and procedures. We did note the following areas where controls and processes should be enhanced:

Observation No. 3 – Review of Support Documentation (Control Finding)

We noted two payments were approved without sufficient supporting documentation to verify the services received.

- InfoPrint Solutions is a service contractor for printer maintenance and bills the County monthly based on printer usage (per impression). Usage is calculated in CEO/IT programs and provided directly to InfoPrint for billing. We noted that CEO/IT Finance did not obtain this supporting calculation and information from CEO/IT programs to verify actual usage to the invoice amounts prior to approving the payments. The invoice we tested totaled \$4,262.
- The County has a contract with ACS State and Local Solutions, Inc. (ACS) for lease of Data Processing Hardware and Software. The contract includes utilizing third-party vendors for mainframe software and allows ACS to bill for the actual costs plus 12% for indirect costs. One invoice that we tested from ACS for \$141,323.53 included allocated charges for on-going third party software costs of 11 vendors and corresponding indirect costs. We found ACS provided CEO/IT a detailed worksheet for the charges. However, we noted there was no supporting documentation to validate the ACS charges from these vendors are actual costs.

Recommendation No. 3

CEO/Information Technology establish procedures to ensure applicable supporting documents are obtained and reviewed prior to invoice and payment approval.



CEO/IT Management Response:

Concur. Core responsibilities have been reinforced for the CEO/IT Finance team; the expectation that all charges be checked against appropriate supporting documentation prior to payment was reiterated. In the future, CEO/IT Finance accounts payable supervisor will audit payment records before authorizing invoice payment. Additionally, the administrative manager will review payments records before final approval.

Specifically regarding the issue found with InfoPrint Solutions, CEO/IT Finance has received the necessary usage meter supporting data to validate invoices before payment processing.

The County notified ACS in writing of anomalies against its contractual obligations to provide detailed supporting documentation for all services rendered, by ACS itself or by designated third-party suppliers. ACS will rectify this issue and the appropriate supporting documentation will be provided as of the February 2009 invoice.

Observation No. 4 – CEO/IT Authorization Signature List (Control Finding)

Our testing noted three County employees who separated from CEO/IT were still on the active Authorization Signature List maintained on file with Auditor-Controller Claims & Disbursing.

Authorized Signature Lists are used in Auditor-Controller Claims & Disbursing for verifying approval of various transactions performed by personnel in CEO/IT, and should be kept current. There had been recent turnover in CEO/IT Contracts and Finance personnel which contributed to the list not being current.

Recommendation No. 4

CEO/Information Technology ensure its Authorized Signature Lists are kept current.

CEO/IT Management Response:

Concur. The departmental Authorized Signature List has been updated; three employees were removed from the list. CEO/IT Finance has implemented an employee entrance/exit check list for both the CEO/IT Finance and CEO/IT Contracts team. This checklist is included in the formal CEO/IT Finance processes and procedures binder and all relevant staff have been educated on its use.



Observation No. 5 – Accuracy of Contract Payment Records (Control Finding)

A *Payment Record* for the SBC-CalNet contract for telephone services and products was not accurately updated for the related contract amendments, and the remaining contract balance was understated by **\$5 million**.

The contract file *Payment Record* is a tool for CEO/IT Finance to monitor contract payments and balances. Our testing of invoices noted one instance where the *Payment Record* for the SBC-CalNet price agreement was not accurately updated to reflect the five contract amendments made to the original contract. As a result, the contract balance was understated. Supervisory reviews of the *Payment Record* will help detect such errors.

Recommendation No. 5

CEO/Information Technology take measures to ensure the accuracy of contract file *Payment Records*, such as performing desk checks or detailed supervisory reviews.

CEO/IT Management Response:

Concur. The SBC-CalNet contract balance has been updated to reflect the current and complete price agreement. The CEO/IT Finance accounts payable supervisor will audit payment records before authorizing invoice payment. Additionally, the administrative manager will review payment record before final approval.

SOLE SOURCE CONTRACTS (Audit Objective #3)

One of our objectives was to review CEO/IT's Sole Source contracts for compliance with *Contract Policy Manual* requirements and for the required justification and management authorization. We audited a sample of **eight Sole Source contracts totaling about \$1.7 million**.

Our audit found that Sole Source contracts were generally in compliance with requirements of the *Contract Policy Manual (CPM)* and contained the required justification and management authorization. However, we did note the following observation, which is considered a Compliance Issue with requirements of the *CPM*:

Observation No. 6 – Board Approval of Sole Source Contracts (Significant Issue)

We noted two instances where Board of Supervisors' (BOS) approval of Sole Source contracts was not obtained in accordance with requirements of the *CPM*.



1. A Sole Source “lease” contract totaling \$323,875 with Key Equipment Finance for an automated tape library system did not have a *Justification of Sole Source Request* form and was not submitted for BOS approval. *CPM Section 4.4*, states that all Sole Source contracts that exceed an annual amount of \$50,000 require approval by the BOS and a *Justification of Sole Source Request* form shall be attached to or included within the *Agenda Staff Report* for BOS approval.
2. A contract amendment involving IBM Corporation and InfoPrint Solutions was approved by the BOS; however, documentation provided to the BOS incorrectly indicated the contract was not a Sole Source contract. IBM Corporation had a Sole Source contract to provide printers and maintenance services for three years in the amount not to exceed \$330,173. The original contract was amended when IBM assigned all of its rights, obligations and responsibilities to InfoPrint Solutions. We noted the *Agenda Staff Report* (ASR) submitted for BOS approval incorrectly stated it was not a Sole Source contract and the *Justification of Sole Source Request* form was contained in the contract file but was not attached with the ASR.

Recommendation No. 6

CEO/Information Technology should evaluate the above contracts and consult with the CEO Procurement Office as needed to ensure appropriate corrective actions are taken to ensure compliance with policy requirements for Sole Source contracts.

CEO/IT Management Response:

Concur. CEO/IT Contracts evaluated the contract with CEO Procurement and determined that CEO/IT adhered to the Contract Policy Manual. While the Contract Policy Manual does state that sole source service contracts that exceed an annual amount of \$50,000 require Board of Supervisors approval, it is silent on the treatment of leases. CEO/IT has reviewed the Key Equipment lease with CEO Procurement to ensure alignment on policy.

The IBM InfoPrint contract for printer maintenance is a sole source contract. The Agenda Status Report does not indicate that it was a sole source contract, although the contract file was complete and contains a sole source justification form. The CEO/IT Contracts manager (who is a Deputy Purchasing Agent) will review and approve all sole source documentation to ensure compliance with policy requirements.

Based on discussions with CEO Procurement, no additional actions are needed for these two contracts.



Observation No. 7 – Review of Sole Source Justification Forms (Control Finding)

The review and approval of CEO/IT Sole Source justification forms could be enhanced by requiring the Contracts Manager or a Deputy Purchasing Agent review the justification forms to ensure completeness of the forms and consistency in details providing justification to support the Sole Source request.

Sole Source justification forms used in CEO/IT contain signature lines to indicate the review, approval, and authorization of the Sole Source contract request. There are spaces for the Authorized Department/Agency's signature; a Deputy Buyer's signature; a Deputy Purchasing Agent (DPA) signature, and a CEO Buyer signature.

Our testing disclosed two instances when there was only the authorized Department/Agency signature on the form, and one instance when the authorized signer of a Sole Source request could not be identified.

Although the *Contract Policy Manual* does not require additional reviews and signatures, it is a good business practice to have Sole Source requests reviewed by contracts or purchasing to ensure completeness and consistency in providing justification to support a Sole Source request. Also, some contracts are initiated by another agency/department; therefore, maintaining a list of all authorized signers for Sole Source request for verification purpose is necessary.

Recommendation No. 7

CEO/Information Technology establish a process by which Sole Source justification requests are reviewed by contracts or purchasing. The review process should include a verification of all authorized signers of Sole Source requests and contain the reviewer's signature(s) on the Sole Source justification form.

CEO/IT Management Response:

Concur. The CEO/IT Contracts manager (who is a Deputy Purchasing Agent) will review and approve all sole source contract documentation to ensure compliance with policy requirements. This process was covered in internal procurement training that occurred for Office of the CIO staff in January 2009 and highlighted in a formal procurement manual that will be completed in July 2009.

EFFICIENCY/EFFECTIVENESS (Audit Objective #4)

One of our objectives was to identify where efficiencies and effectiveness can be enhanced in contract administration and payment processes in CEO/IT. Our audit noted the following observation:



Observation No. 8 – Payment Review Outside of CEO/IT Finance (Control Finding)

We found contract invoices and payments for the IT Strategic Plan Consulting Services contract (Pacific Technologies) were not processed and approved in CEO/IT Finance. Due to a plan to transfer the responsibility for administering and monitoring of all Fund 038 contracts to the Chief Information Office (CIO), these invoices and payments were processed and approved in the CIO. However, the plan to transfer responsibility was discontinued and the Pacific Technologies contract was the only one transferred to the CIO. To ensure consistency in the invoice payment processing, these invoices should be routed to, and processed by CEO/IT Finance.

Recommendation No. 8

CEO/Information Technology evaluate transferring invoice processing responsibility for the Pacific Technologies contract to CEO/IT Finance.

CEO/IT Management Response:

Concur. The Pacific Technologies contract was transitioned to CEO/IT Finance. All future PTI invoices will be processed by CEO/IT Finance.



ATTACHMENT A: Report Item Classifications

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

▶ **Material Weaknesses:**

Audit findings or a combination of Significant Issues that can result in financial liability and exposure to a department/agency and to the County as a whole. Management is expected to address “Material Weaknesses” brought to their attention immediately.

▶ **Significant Issues:**

Audit findings or a combination of Control Findings that represent a significant deficiency in the design or operation of processes or internal controls. Significant Issues do not present a material exposure throughout the County. They generally will require prompt corrective actions.

▶ **Control Findings:**

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: County Executive Office/ Information Technology Management Responses



County Executive Office Memorandum

February 4, 2009

To: Dr. Peter Hughes, Director Internal Audit Department

From: Satish Ajmani, Deputy CEO and Chief Information Officer

Subject: Responses to Draft Report of Internal Audit Findings Dated December 4, 2008

Please find our responses to the results of the Draft Report Audit of Internal Controls of CEO/Information Technology Contract Administration and Related Contract Payments (Audit No. 2827).

CONTRACT ADMINISTRATION (Audit Objective #1)

Response to Observation No.1 – Contract Monitoring for Expiration or Renewal

Concur. A process for contract renewal has been documented. This process was covered in internal procurement training held for Office of the CIO staff in January 2009. A schedule will be published for Office of the CIO staff that highlights pending contract renewals for the current fiscal year. This will assist in providing the appropriate level of visibility and planning. This schedule will be finalized in February 2009.

The renewal process will be highlighted in a CEO/IT procurement manual that is in progress and will be completed in July 2009.

Response to Observation No.2 – Verification of Delivered Items

Concur. A process has been implemented to confirm receipt and verification of commodity purchases at the Data Center prior to CEO IT/Finance payment. This process has been added to the CEO/IT Finance processes and procedure binder and all relevant staff have been trained.

CONTRACT PAYMENTS (Audit Objective #2)

Response to Observation No.3 – Review of Support Documentation

Concur. Core responsibilities have been reinforced for the CEO/IT Finance team; the expectation that all charges be checked against appropriate supporting documentation prior to payment was reiterated. In the future, the CEO/IT Finance accounts payable supervisor will audit



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payment records before authorizing invoice payment. Additionally, the administrative manager will review payment records before final approval.

Specifically regarding the issue found with InfoPrint Solutions, CEO/IT Finance has received the necessary usage meter supporting data to validate invoices before payment processing.

The County notified ACS in writing of anomalies against its contractual obligations to provide detailed supporting documentation for all services rendered, by ACS itself or by designated third-party suppliers. ACS will rectify this issue and the appropriate supporting documentation will be provided as of the February 2009 invoice.

Response to Observation No.4 – CEO/IT Authorization Signature List

Concur. The departmental Authorized Signature List has been updated; three employees were removed from the list. CEO/IT Finance has implemented an employee entrance / exit check list for both the CEO/IT Finance and CEO/IT Contracts team. This checklist is included in the formal CEO/IT Finance processes and procedure binder and all relevant staff have been educated on its use.

Response to Observation No.5 – Accuracy of Contract Payment Records

Concur. The SBC-CalNet contract balance has been updated to reflect the current and complete price agreement. The CEO/IT Finance accounts payable supervisor will audit payment records before authorizing invoice payment. Additionally, the administrative manager will review the payment record before final approval.

SOLE SOURCE CONTRACTS (Audit Objective #3)

Response to Observation No.6 – Board Approval of Sole Source Contracts

Concur. CEO/IT Contracts evaluated the contract and with CEO Procurement and determined that CEO/IT adhered to the Contract Policy Manual. While the Contract Policy Manual does state that sole source service contracts that exceed an annual amount of \$50,000 require Board of Supervisors approval, it is silent on the treatment of leases. CEO/IT has reviewed the Key Equipment lease with CEO Procurement to ensure alignment on policy.

The IBM InfoPrint contract for printer maintenance is a sole source contract. The Agenda Status Report does not indicate that it was a sole source contract, although the contract file was complete and contains a sole source justification form. The CEO/ IT Contracts manager (who is a Deputy Purchasing Agent) will review and approve all sole source contract documentation to ensure compliance with policy requirements.

Based on discussions with CEO Procurement, no additional actions are needed for these two items.

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Response to Observation No.7 – Review of Sole Source Justification Forms

Concur. The CEO/IT Contracts manager (who is a Deputy Purchasing Agent) will review and approve all sole source contract documentation to ensure compliance with policy requirements. This process was covered in internal procurement training that occurred for Office of the CIO staff in January 2009 and highlighted in a formal procurement manual that will be completed in July 2009.

Response to Observation No.8 – Payment Review Outside of CEO/IT Finance

Concur. The Pacific Technologies contract was transitioned CEO/IT Finance. All future PTI invoices will be processed by CEO/IT Finance.

We believe that the aforementioned activities will adequately address the Control Finding and the associated recommendation from Internal Audit.

cc: Thomas G. Mauk, County Executive Officer
Mike Goodwin, Internal Audit

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