

OFFICE OF AUDITS & ADVISORY SERVICES



COUNTYWIDE CONTROLS FOR MONITORING CONTRACTOR COMPLIANCE

FINAL AUDIT REPORT

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November 21, 2011

TO: Winston F. McColl, Director
Department of Purchasing and Contracting

Donald W. Turko, Director
Department of Human Resources

Deborah Seiler, Registrar of Voters
Registrar of Voters

FROM: James L. Pelletier
Chief of Audits

FINAL REPORT: COUNTYWIDE CONTROLS FOR MONITORING CONTRACTOR COMPLIANCE

Enclosed is our report on the Countywide Controls for Monitoring Contractor Compliance. We have reviewed your responses to our recommendations and have attached them to the audit report.

The actions taken and/or planned, in general, are responsive to the recommendations in the report. As required under Board Policy B-44, we respectfully request that you provide quarterly status reports on the implementation progress of the recommendations. The Office of Audits & Advisory Services will contact you or your designee near the end of each quarter to request your response.

Also attached is an example of the quarterly report that is required until all actions have been implemented. To obtain an electronic copy of this template, please contact Franco Lopez at (858) 505-6436.

If you have any questions, please contact me at (858) 495-5661.


JAMES L. PELLETIER

Chief of Audits

AUD:FDL:aps

- c: Mikel D. Haas, Deputy Chief Administrative Officer, Community Services Group
Sarah Aghassi, Deputy Chief Administrative Officer, Land Use and Environment Group
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Dorothy Y. Thrush, Group Finance Director, Public Safety Group

INTRODUCTION

Audit Objective

The Office of Audits & Advisory Services (OAAS) completed an audit of the Countywide Controls for Monitoring Contractor Compliance. The objective of the audit was to determine whether a sample of County departments have adequate monitoring controls in place to ensure contractor compliance with County agreements.

Background

The primary purpose of contract monitoring is to determine contractor compliance with County agreement requirements. The specific nature and extent of contract monitoring varies by contract and by department. It can range from the minimum acceptance of a product or service to extensive involvement by program personnel throughout the contract term. Several factors influence the degree of contract monitoring, including the nature and extent of contracted work. Contracts are generally comprised of standard terms and conditions (proforma), a statement of work (SOW), exhibits, and amendments.

The County of San Diego Administrative Manual (0090-01) outlines that Purchasing and Contracting (P&C) is responsible for coordinating efforts to improve “standardized contract administration practices.” Many of these practices are outlined in the Contract Administration Guide (CAG), which should be supplemented as necessary by departments for their own use. P&C also provides training to agencies, departments, and offices on contracting procedures.

Per Board of Supervisor’s Policy A-81, department heads are responsible for the overall performance of their contracts. This includes contract monitoring and evaluation to determine if contractors are in compliance. Most departments designate a Contracting Officer’s Technical Representative (COTR) as the contract program manager responsible for day-to-day oversight of the contract. This can include ensuring contractor compliance with the technical requirements of the contract and processing of contract payments.

Audit Scope & Limitations

The scope of the audit focused on evaluating whether adequate contract monitoring controls were in place within four sampled County departments: Air Pollution Control District (APCD), Department of Human Resources (DHR), Probation Department (PD), and Registrar of Voters (ROV).

This audit was conducted in accordance with auditing standards prescribed by the Institute of Internal Auditors, Inc., as required by California Government Code, Section 1236.

Methodology

OAAS performed the audit using the following methods:

- Reviewed the CAG and other guidance provided by P&C;
- Assessed the controls documented in the CAG and those utilized by Health & Human Services Agency’s Agency Contract Support (ACS) to monitor contractor compliance;

- Identified a basic set of controls from the CAG and ACS necessary to monitor contractor compliance;
- Selected one contract from each of four selected departments for audit testing; and
- Interviewed contract monitoring personnel and reviewed contract files to determine if basic controls were in place at each department sampled.

AUDIT RESULTS

Summary

Within the scope of the audit, OAAS concluded that each sampled department generally had adequate monitoring controls in place to ensure contractors are in compliance with their County agreements. To further strengthen current controls in the contract monitoring process and improve control effectiveness, OAAS offers the following findings and related recommendations. Recommendations that are specific to a certain department are labeled with the department's abbreviation.

Finding I:

Additional Contract Monitoring Guidance Should be Outlined Within the Contract Administration Guide

Each department's contract monitoring efforts were adequate in areas outlined within the CAG. However, equal monitoring emphasis was not observed in proforma requirements and other key risk areas not contained in the CAG, such as:

- **Debarred Merchants:** Departments sampled did not have debarred merchant monitoring as an ongoing activity in their monitoring plans. In each case, debarment review was conducted only during the contract procurement stage. Departments should ensure that they are not using debarred merchants throughout the term of their contracts. However, the CAG does not currently specify a requirement for ongoing periodic monitoring of debarred status.
- **Subcontractor Monitoring:** Two out of four departments (DHR and ROV) did not have an activity in their plans to ensure that their subcontractors are in compliance with County agreement requirements. Departments should be verifying that contractors are monitoring their subcontractors. Specifically, contractors are required to ensure that their subcontractors have required insurance coverage and required County agreement language in their subcontracts.
- **Contractor Viability:** Three out of four departments (APCD, DHR and ROV) did not have a process in place to assess contractor financial viability throughout the term of the contract. Departments should be assessing their contracts in order to establish whether there is a need to evaluate contractor financial viability. Higher risk contracts should be periodically assessed for financial viability.

While the P&C CAG does not specifically outline such a requirement, contractor viability is an area of elevated risk that should be considered in County contract monitoring plans.

Per P&C, the contract proforma has equal standing to the SOW and includes clauses meant to protect the County. In cases where proforma clauses do not provide sufficient risk coverage, departments should outline further requirements within the SOW or in a contract exhibit. Not doing so may expose the County to risks, such as fiscal liability and funding disallowances. Attention should also be given to high risk items that are not directly covered by the proforma, such as contractor financial viability, that could result in interruption or loss of services.

Recommendation:

P&C.1

P&C should amend the CAG to include guidance for monitoring debarred merchants, subcontractor requirements, and contractor financial viability.

Finding II:

Department Contract Administration Practices Should be Strengthened

County departments are responsible for ensuring their contract administration practices adhere to standardized procedures outlined in P&C guidance. However, sampled departments did not fully follow P&C guidance related to monitoring plans and supplemental procedures, and one key administration practice (maintaining a contract registry) was not included in the CAG.

- **Contract Monitoring Plans:** Two out of four departments (DHR and ROV) did not have their contract monitoring activities formally documented. All departments reviewed had adequate monitoring activities as part of the day-to-day operations, but the need for plan documentation had not been identified. Per the CAG, a contract administration plan is essential when the contract involves large dollar amounts or complex technical requirements. Benefits of having a documented monitoring plan include ensuring continuity of monitoring activities and providing guidance to new staff.
- **Supplemental Contract Administration Procedures:** Two out of four departments (DHR and ROV) did not have supplemental contract administration procedures because a need for documentation had not been identified. As outlined in the County of San Diego Administrative Manual (0090-01), P&C guidance “should be supplemented as required, by individual agencies, departments and offices to ensure sufficient guidance and expertise is maintained within these organizations for use in projects under their cognizance.” Without supplemental procedures, departments would be unable to ensure sufficient guidance and expertise is maintained for their contract administration requirements or that they meet the standards outlined by P&C.

- Department Contract Registries:** One out of four departments (DHR) did not utilize a central contract registry to track its contracts. A departmental listing was not previously identified as a requirement by DHR, which tasks its divisions to track, monitor, and enforce contracts. A contract registry provides departments with a valuable tool for the administration of contracted services. Information contained in the contract registry should include, but is not limited to: COTRs/Program Managers, contract numbers, and contracted amounts. However, a Countywide registry does not exist, and the CAG does not currently outline a requirement for departments to maintain such a registry. Without a central contract registry, departments may not be readily aware of all agreements which they are contractually committed to and may not be able to administer contracts effectively.

To fulfill their responsibility for standardizing contract administration practices, P&C provides guidance to departments through manuals and guidebooks, such as the CAG. P&C also updates their guidance as necessary. Departments are responsible for implementing and supplementing P&C guidance for their own use to ensure departmental knowledge is maintained and contracting processes are consistent.

Recommendation:

ROV.2 and DHR.2a

DHR and ROV should document established contract monitoring activities within a formal plan, as outlined in the CAG.

DHR.2b

DHR should establish a centralized departmental contract registry to assist in tracking, monitoring, and enforcement of contracts.

P&C.2

P&C should amend the CAG to outline the Administrative Manual (0090-01) requirement that departments maintain supplemental contract administration procedures. The CAG should also be amended to require departments to maintain a contract registry to assist in tracking, monitoring, and enforcing their contracts.

Office of Audits & Advisory Services

C ompliance

R eliability

E ffectiveness

A ccountability

T ransparency

E fficiency

VALUE

**DEPARTMENT'S RESPONSE
(PURCHASING & CONTRACTING)**



County of San Diego

Department of Purchasing and Contracting
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Winston F. McColl
Director

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November 18, 2011

RECEIVED

NOV 18 2011

TO: James L. Pelletier
Chief of Audits (O-305)

FROM: Winston F. McColl, Director
Department of Purchasing and Contracting (O-32)

OFFICE OF AUDITS &
ADVISORY SERVICES

DEPARTMENT RESPONSE TO AUDIT RECOMMENDATIONS: A11-002 – COUNTYWIDE CONTROLS FOR MONITORING CONTRACTOR COMPLIANCE

Pursuant to Board of Supervisors Policy B-44, below is the quarterly status update of outstanding recommendations included in the audit report.

Finding I: Additional Contract Monitoring Guidance Should be Outlined Within the Contract Administrative Guide

OAAS Recommendation: P&C.1

P&C should amend the CAG to include guidance for monitoring debarred merchants, subcontractor requirements, and contractor financial viability.

Action Plan Status: Concur. P&C is currently reviewing best practices in this area. P&C will also meet with selected key departments to seek recommendations on the most efficient manner to monitor debarred merchants, ensure contractor compliance with contractual requirements, and monitor contractor's financial viability. Since P&C does not have personnel resources currently available, we are seeking approval to create an additional FTE in the contracting unit wholly dedicated to advising, assisting, training, developing contract administration tools and instructional materials to achieve this goal. That is why the planned completion date is placed far into the future.

Planned Completion Date: No later than third quarter, CY2012

Contact Information for Implementation: Bruce Petrozza, Contracting Manager

Finding II: Department Contract Administrator Practices Should be Strengthened

OAAS Recommendation: ROV.2 and DHR.2a

DHR and ROV should document established contract monitoring activities within a formal plan, as outlined in the CAG.

DEPARTMENT RESPONSE TO AUDIT RECOMMENDATIONS: A11-002 –
COUNTYWIDE CONTROLS FOR MONITORING CONTRACTOR COMPLIANCE
November 18, 2011
Page 2

DHR.2b

DHR should establish a centralized departmental contract registry to assist in tracking, monitoring and enforcement of contracts.

P&C.2

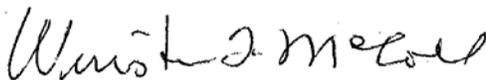
P&C the CAG the Administrative Manual (0090-01) requirement that departments maintain supplemental contract administration procedures. The CAG should also be amended to require departments to maintain a contract registry to assist in tracking, monitoring, and enforcing their contracts.

Action Plan Status: Concur. P&C will review the CAG and the CAO Administrative Manual (0090-1) that departments have contract administration procedures in place to monitor contractor performance. We will provide instructions to the departments on how to create a contract registry from existing databases to assist in tracking, monitoring, and enforcing their contracts. Since P&C does not have personnel resources currently available, we are seeking approval to create an additional FTE in the contracting unit wholly dedicated to advising, assisting, training, developing contract administration tools and instructional materials to achieve this goal. That is why the planned completion date is placed far into the future.

Planned Completion Date: No later than third quarter, CY 2012

Contact Information for Implementation: Bruce Petrozza, Contracting Manager

If you have any questions, please contact Bruce Petrozza, Contracting Manager at (858) 537-2540.



WINSTON F. McCOLL, Director
Department of Purchasing and Contracting

DEPARTMENT'S RESPONSE
(DEPARTMENT OF HUMAN RESOURCES)



County of San Diego

DEPARTMENT OF HUMAN RESOURCES

EXECUTIVE OFFICE

1600 Pacific Highway #203, San Diego, CA 92101

DONALD W. TURKO
DIRECTOR

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October 5, 2011

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TO: James L. Pelletier, Chief of Audits
Auditor and Controller

OCT 06 2011

OFFICE OF AUDITS &
ADVISORY SERVICES

FROM: Donald W. Turko, Director
Human Resources

DEPARTMENT RESPONSE TO AUDIT RECOMMENDATIONS: COUNTYWIDE CONTROLS FOR MONITORING CONTRACTOR COMPLIANCE

Finding II: Department Contract Administration Practices Should be Strengthened

OAAS Recommendation: DHR.2a – DHR should document established contract monitoring activities within a formal plan, as outlined in the CAG.

Action Plan: DHR concurs with your audit findings. DHR will establish a formal Contract Monitoring Plan, as currently outlined in the Contract Administration Guide (CAG). These plans will be reviewed and updated once Purchasing and Contracting provides further guidance in the CAG.

Planned Completion Date: January 1, 2012

Contact Information for Implementation: Janice Horning, HR Services Manager

OAAS Recommendation: DHR.2b – DHR should establish a centralized departmental contract registry to assist in tracking, monitoring and enforcement of contracts.

*Winner IPMA-HR Large Agency Award for Excellence
Winner SD SHRM Workplace Excellence Award*

James L. Pelletier
Response to Audit Recommendations
October 5, 2011
Page 2

DHR concurs with your audit findings. DHR will establish a centralized registry for all DHR contracts, which will be maintained within the DHR Administration Division.

Planned Completion Date: November 1, 2011

Contact Information for Implementation: Kristina Echeverria,
Departmental Human Resources Officer

If you have any questions please contact me at (619) 531-5100.



Donald W. Turko
Director, Human Resources

DWT:JH

DEPARTMENT'S RESPONSE
(REGISTRAR OF VOTERS)



County of San Diego

DEBORAH SEILER
Registrar of Voters

MICHAEL VU
Assistant Registrar

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October 14, 2011

TO: James L. Pelletier
Chief of Audits

FROM: Deborah Seiler
Registrar of Voters

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OCT 18 2011

OFFICE OF AUDITS &
ADVISORY SERVICES

DEPARTMENT RESPONSE TO AUDIT RECOMMENDATIONS: COUNTYWIDE CONTROLS FOR MONITORING CONTRACTOR COMPLIANCE

Finding II: Department Contract Administration Practices Should be Strengthened

OAAS Recommendation: ROV should document established contract monitoring activities within a formal plan, as outline in the CAG.

Action Plan: The Department agrees with the recommendation and has started the process of establishing contract monitoring activities within a formal plan, as outlined in the CAG, for our various contracts.

Planned Completion Date: December 31, 2011.

Contact Information for Implementation: Jennifer Uebbing, Administrative Analyst III.

If you have any questions, please contact me at (858) 694-3401.

DEBORAH SEILER
Registrar of Voters

DAS:dn