

# OFFICE OF AUDITS & ADVISORY SERVICES



## COUNTYWIDE CONTRACT MANAGEMENT AUDIT

### *FINAL REPORT*

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# County of San Diego

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**JUAN R. PEREZ**  
CHIEF OF AUDITS

December 14, 2018

TO: Migell Acosta, Director  
County Library

FROM: Juan R. Perez  
Chief of Audits

## FINAL REPORT: COUNTYWIDE CONTRACT MANAGEMENT AUDIT

Enclosed is our report on the Countywide Contract Management Audit. We have reviewed your response to our recommendations and have attached it to the audit report.

The actions taken and/or planned, in general, are responsive to the recommendations in the report. As required under Board of Supervisors Policy B-44, we respectfully request that you provide quarterly status reports on the implementation progress of the recommendations. You or your designee will receive email notifications when these quarterly updates are due, and these notifications will continue until all actions have been implemented.

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

A handwritten signature in blue ink, appearing to read "Juan R. Perez".

JUAN R. PEREZ  
Chief of Audits

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Enclosure

c: April Heinze, Deputy Chief Administrative Officer, Community Services Group  
Tracy M. Sandoval, Deputy Chief Administrative Officer/Auditor and Controller  
Brian Hagerty, Group Finance Director, Community Services Group



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**JUAN R. PEREZ**  
CHIEF OF AUDITS

December 14, 2018

TO: Susan Brazeau, Director  
Department of Human Resources

FROM: Juan R. Perez  
Chief of Audits

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JUAN R. PEREZ  
Chief of Audits

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Enclosure

c: Tracy M. Sandoval, Deputy Chief Administrative Officer/Auditor and Controller  
Damien Quinn, Group Finance Director, Finance and General Government Group



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**JUAN R. PEREZ**  
CHIEF OF AUDITS

December 14, 2018

TO: Holly Crawford, Director  
Office of Emergency Services

FROM: Juan R. Perez  
Chief of Audits

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Enclosure

c: Ronald Lane, Deputy Chief Administrative Officer, Public Safety Group  
Tracy M. Sandoval, Deputy Chief Administrative Officer/Auditor and Controller  
Rosemarie Degracia, Group Finance Director, Public Safety Group



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**JUAN R. PEREZ**  
CHIEF OF AUDITS

December 14, 2018

TO: Robert Kard, Air Pollution Control Officer  
Air Pollution Control District

FROM: Juan R. Perez  
Chief of Audits

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Enclosure

c: Sarah Aghassi, Deputy Chief Administrative Officer, Land Use and Environment Group  
Tracy M. Sandoval, Deputy Chief Administrative Officer/Auditor and Controller  
Yuliya Leina, Group Finance Director, Land Use and Environment Group



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**JUAN R. PEREZ**  
CHIEF OF AUDITS

December 14, 2018

**TO:** Nick Macchione, Director  
Health and Human Services Agency

**FROM:** Juan R. Perez  
Chief of Audits

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c: Tracy M. Sandoval, Deputy Chief Administrative Officer/Auditor and Controller  
Andrew Pease, Executive Finance Director, Health and Human Services Agency  
Dean Arabatzis, Chief Operations Officer, Health and Human Services Agency  
Patty Kay Danon, Director of Agency Contract Support, Health and Human Services Agency



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**JUAN R. PEREZ**  
CHIEF OF AUDITS

December 14, 2018

TO: Jack Pellegrino, Director  
Department of Purchasing and Contracting

FROM: Juan R. Perez  
Chief of Audits

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Brian Hagerty, Group Finance Director, Community Services Group





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**JUAN R. PEREZ**  
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December 14, 2018

TO: Herman Reddick, Director  
County Fire Authority

FROM: Juan R. Perez  
Chief of Audits

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## INTRODUCTION

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### **Audit Objective**

The Office of Audits & Advisory Services (OAAS) completed an audit of countywide contract management practices. The objective of the audit is to assess the adequacy of departmental contract management and monitoring practices to ensure compliance with applicable laws and regulations and performance measures for the County of San Diego (County).

### **Background**

The primary purpose of contract management and monitoring is to determine contractor compliance with applicable laws and regulations and contract terms. 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 management and 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.

County Administrative Code (Admin Code), Section 407 specifies that the Department of Purchasing and Contracting (DPC) is responsible for coordinating efforts to improve the County's contracting process, including development of standardized contract administration practices.

County Board of Supervisor's (BOS) Policy A-81 establishes that Department Heads are responsible for the overall performance of contracts, and Program Managers are responsible for contract administration.

To meet the responsibilities identified in Section 407, County Administrative Manual Item 90-01 requires DPC to issue supplemental guidance; including developing standard procedures for life-cycle contract administration and a Guidebook with subject matter sections relating to the County's purchasing and contracting function.

DPC requires the use of contracting templates, and the designation of a Contracting Officer's Representative (COR) for each contract. The COR authority is designated by the DPC Director, and the COR assignment is determined by the department. CORs are notified of their role by the DPC Director via a COR Delegation of Responsibilities and Duties Letter which appoints the COR to act in the capacity of Program Manager for prescribed contracts.

### **Audit Scope & Limitations**

The scope of the audit covered, but was not limited to, countywide contract management and monitoring practices for contract purchase agreements and grants paid through contract agreements for FY 2015-16. This audit excludes blanket purchase agreements and revenue contracts.

OAAS selected at least one department from each County business group for testing as follows:

- Health and Human Services (HHSA), Agency Contract Support (ACS)
- Air Pollution Control District (APCD)
- Department of Human Resources (DHR)
- County Library (Library)
- Office of Emergency Services / San Diego County Fire Authority (OES/CFA)<sup>1</sup>.

This audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing prescribed by the Institute of Internal Auditors as required by California Government Code, Section 1236.

## **Methodology**

OAAS performed the audit testing for APCD, DHR, Library, and OES/CFA using the following methods:

- Reviewed County codes, policies, and procedures related to procurement, and other guidance provided by DPC;
- Interviewed DPC management regarding departmental responsibilities for performance of contracts and training available to staff who are responsible for day-to-day administration and oversight of contracts;
- Conducted on-site interviews and observations within each of the selected departments to identify and evaluate controls in place related to contract management and monitoring;
- Judgmentally selected five contracts from APCD, DHR, Library, and OES/CFA and conducted testing to verify whether departments adequately developed contract SOWs and monitoring plans, performed contract monitoring activities in compliance with applicable policies and procedures, and properly administered contracts;

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<sup>1</sup> OES contract administration functions include CFA program contracts. However, even though the organizational and accounting structure is that CFA falls within the umbrella of OES, CFA is presented as its own program/department in the Operational Plan, with budget, management, and operational activities being solely the responsibility of CFA.

**Table 1: Contracts by Departments (Program) Selected for Detail Testing**

Sample No.	APCD	DHR	Library	OES/CFA*
	Contract No.			
1	537249	539507	501048	530235*
2	537449	544118	538118	545864*
3	540669	544660	546881	549342*
4	543921	549644	550506	552828*
5	548243	551684	550688	554447

- Judgmentally selected a sample of paid invoices for detail testing to ensure payments had complete and accurate supporting documentation and proper approvals; and to ensure that they were accurately recorded, and in compliance with contract provisions.

OAAS performed audit testing for ACS using the following methods:

- Reviewed policies and procedures related to annual contract audit and COR quality assurance review processes;
- Conducted interviews and a review of contract audit planning documents to determine the process used to develop the annual contract audit plan;
- Judgmentally selected a sample of contract audits to assess the effectiveness of the ACS risk assessment and audit plan processes and compliance with internal policies;
- Judgmentally selected a sample of quality assurance reviews to determine whether reviews were documented and retained, completed on-time, and all findings were communicated to HHSA management.

## SUMMARY

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The County of San Diego has a comprehensive contract management structure in place that includes clearly defined roles and responsibilities for contract monitoring and administration, as well as adequate policies designed to ensure compliance with applicable laws and regulations, and tutorials and training materials available to County staff charged with contract management and administrative responsibilities. Based on the scope of the audit, OAAS identified opportunities to strengthen the adequacy of departmental contract management and monitoring practices and ensure compliance with applicable laws and regulations. Audit findings and related recommendations are identified in the body of the report.

A review of contracts for APCD, DHR, Library, and OES/CFA found:

- Improvements are needed to ensure completeness and accuracy of department contract lists.
- Opportunities to improve the assignment of CORs to contract management duties.
- Issues were noted related to delegating and exceeding contract authority.
- Department CORs should obtain training to ensure that they have necessary skills and knowledge to manage and monitor contracts.
- The County can improve contract language to ensure adequacy and effectiveness of contracts and proper approval of payments.
- The County should improve the internal controls over the contract amendment process to ensure contractual documentation is adequate and complete.
- Errors were noted in processing and approving invoices.
- Internal controls over budgeting, encumbrances, and recording contract expenditures should be enhanced.
- Departments should improve contract monitoring and management activities to ensure oversight of contract performance and expenditures.

A review of HHSA contract monitoring and quality assurance activities found:

- HHSA should improve contract management and monitoring policies to increase the efficiency and effectiveness of contract administration and monitoring processes.
- Opportunities exist to enhance the usability and accuracy of HHSA's contract management system.
- ACS can improve its Contractor Risk Assessment and Audit Plan processes.
- ACS can enhance the Audit Plan Status reporting to increase the effectiveness of the contract audit process.
- Internal contract issues were noted on the ACS Quality Assurance process.

## CHAPTER 1      AUDIT RESULTS FOR APCD, DHR, LIBRARY, AND OES/CFA

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### Background

The County has identified the need for a countywide contract lifecycle management system (CLM). DPC engaged with the County Technology Office to select and implement a CLM and has included stakeholders from all groups in the requirements development. A Request for Proposal (RFP) for a countywide CLM solution which will act as a common contract registry for the contract lifecycle was issued. All departments are expected to migrate to the new CLM. Selection of a vendor for the CLM was made during the 4th quarter of FY 2017-18, and it will be followed by a pilot program. Until CLM is implemented, departments rely on their own solutions to manage their contracts.

### Finding I:

#### Improvements Needed to Ensure Completeness and Accuracy of Departmental Contract Lists

OAAS found that while departments maintain contract information, this information is often incomplete and inconsistent. For instance, the list of contracts obtained from the Library was incomplete as it was missing two of their administered contracts. Further, three of their contracts had the incorrect COR listed. The contract lists provided by the other departments under review did not consistently include the assigned COR, total contract award, starting and expiration dates, and contract type.

DPC stated that the Oracle system contains records of all active contracts, and it is used by DPC management as the contract register for the County. However, audit work found that Oracle is not used by departments as the source of information for contract management purposes.

Complete and accurate contract information is vital to ensure contracts are adequately managed and monitored. However, currently there are no standardized requirements for the type of contract data that departments should track on an ongoing basis.

Per Admin Code, Section 407<sup>‡</sup>, the DPC Director is responsible for coordinating efforts to improve the County's contracting process, including but not limited to, the development of standard procedures for the selection of contractors, standard contract provisions, standardized and simplified review procedures, and standardized contract administration practices. The DPC Director shall monitor and evaluate procedures and provide assistance to the various County departments in respect to contracting.

County Board of Supervisor's (BOS) Policy A-81<sup>§</sup> establishes that Department Heads are responsible for the overall performance of contracts, and Program Managers are responsible for contract administration.

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<sup>‡</sup> Criteria also applies to Finding II.

<sup>§</sup> Criteria also applies to Findings II, III, IV, and VII.



**Recommendations:** To promote operational efficiency and to ensure access to complete, timely, and consistent information related to contract management:

1. DPC should provide County departments with standardized requirements for specific information to be included in the contract list. Such information should include, but not be limited to, contract number, effective dates, award amounts, contract type, and the assigned COR.
2. Library management should review their current contract list and ensure that the contract data is accurate and complete; including a complete list of contracts with the correct assigned COR, to improve the adequacy of the contract data maintained.

**Finding II:**

**Insufficient COR Assignment Guidance**

The technical administration of government contracts is an essential activity. CORs have been assigned with the responsibility to coordinate the contract administration functions. As such, it is crucial that assigned CORs are competent in, and faithful to, the contents and limits of their delegated authority.

OAAS' review of APCD's contract information identified the following issues related to identification and assignment of CORs:

**Identification and Selection of CORs with Technical Expertise –**

Current County practices do not align with best practices<sup>2</sup> for selecting CORs and assigning roles and responsibilities. According to contract administration best practices, a COR should have a balance of technical, financial, and contract management acumen and skills. However, OAAS found that APCD assigned an administrative analyst as the COR for their grant reimbursement contracts related to air quality control. This staff lacked technical expertise in emission and air quality necessary to approve payments for grant reimbursement contracts. According to APCD, program staff with the appropriate technical expertise verified the grantee's compliance with the contract before the COR approved and processed payments.

When selecting a COR, departments should evaluate whether the candidate possesses the necessary knowledge and skills. If necessary, the appointed COR should attend training to ensure that they are aware of, and adept at, implementing the County's financial and contract administration policies and procedures.

**CORs Workload Distribution –** OAAS found that APCD assigned contract administration responsibilities for 290 grant reimbursement contracts to a single COR with one student worker as support.

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<sup>2</sup> The Office of Federal Procurement Policy published "A guide to best practices for contract administration" to be used as a tool to facilitate the contract administration function.

The COR assigned to these contracts left the department in the fall of 2016 and newly hired staff was assigned as the COR for these contracts. In the spring of 2017, there was turnover again and another staff was assigned as the COR. As such, amendments for all contracts were necessary to reflect the newly assigned COR in accordance with DPC requirements. This created an excessive workload for APCD and DPC staff, but more importantly, assigning a high number of contracts to one COR can result in contract administration duties not being performed effectively as described in Finding IX on page 21.

Admin Code, Section 426 states that the DPC Director is authorized to prepare rules, regulations, and procedures relating to the performance of Purchasing and Contracting functions. For additional criteria, refer to Finding I. Refer to footnotes on page 6 for additional criteria applicable to this finding.

Additional research determined that departments have not received direction and training for COR selection and delegation of contract administrative duties. DPC confirmed that there are no general guidelines available to County departments for the identification and assignment of CORs.

**Recommendations:** To ensure that County departments make appropriate considerations in the identification and selection of CORs, DPC should:

1. Develop and publish standard procedures and/or supplemental information related to necessary competencies, such as technical knowledge, expertise, and ability to manage contracts on an ongoing basis.

To ensure adequate administration and oversight of contracts, APCD should:

2. Evaluate skills and knowledge in technical, financial, and contract management before COR assignment. Also, identify and provide necessary training before COR designation.
3. Redistribute administration responsibilities for the 290 grant reimbursement contracts to staff based on knowledge, expertise, and ability to manage contracts on an ongoing basis.

**Finding III:** **COR Authority and Responsibilities Not Consistently Observed**  
OAAS identified the following issues related to COR delegation of authority and COR responsibility limitations:

**Contracts Managed by CORs Without Proper Delegation of Authority**  
– DPC requires departments to process a contract amendment to update the contract each time the delegated COR changes. The COR designation only becomes effective upon the signature by DPC's Contracting Officer. Further, the COR designation can only be re-delegated or rescinded in writing by the DPC's Contracting Officer.

OAAS found that departments did not consistently follow required procedures to delegate authority to CORs for contract management.

Specifically, OAAS found that the following contracts were not properly amended to authorize the current COR assigned:

**Table 2: Contracts Managed by CORs Without Properly Delegated Authority**

Department	Contract No.
Library	501048
Library	538118
CFA	530235
CFA	545864

Lack of proper delegation increases the risk that CORs are not informed of the specific roles and responsibilities, limitation of their duties, unauthorized activities, contract terms and conditions, and other applicable requirements set forth in the County policies and procedures.

**Exceeding COR Limitations of Responsibilities** – Audit work identified CORs that exceeded the limitations of assigned duties and responsibilities by negotiating unauthorized changes to contracts.

For example, the COR for CFA Contract No. 545864<sup>3</sup> with CalFire authorized adjustments in staffing, pricing, and fees for countywide fire protection services outside of a contract amendment. Also, the COR initiated changes in position levels via memorandums instead of contract amendments that could have resulted in cost increases.

According to the COR training provided by DPC, CORs do not have authority to take any action directly or indirectly that changes the pricing, quantity, quality, place of performance, delivery schedule or conditions of the basic contract, or to make any agreement with the contractor that obligates public funds.

CORs are responsible for understanding the contract terms and conditions and knowing the scope and limitations of their authority. CORs should be encouraged to contact DPC for guidance if they are unclear about their authority or aspects of the contract. Refer to footnote on page 6 for additional criteria applicable to this finding.

Exceeding COR authority and responsibilities increases the risk of disputes with contractors and/or personal liability to CORs.

**Recommendations:** To ensure CORs are aware of their roles, responsibilities, and authority limitations, the Library and CFA should:

<sup>3</sup> CFA Program Manager acts as the COR for Contract No. 545864. Also, certain contracts, including Contract No. 545864, do not use a County contract template.

1. Review existing contracts, specifically the ones mentioned in this report, and ensure that current CORs have been formally designated as such, and DPC has been properly notified.
2. Ensure that designated CORs attend the Contracting Officer Representative (COR) Training offered by DPC (refer to Finding IV, Recommendation 2).

**Finding IV:****Designated COR Not Adequately Trained**

OAAS found that CORs are not consistently obtaining the training that, while not mandatory, ensures that they have sufficient expertise to carry out their assigned responsibilities.

**Insufficient Contract Administration Training** – Designated CORs selected in our sample from APCD, Library, OES, and CFA did not obtain contract administration training during FYs 2013-14 and 2014-15. Specifically:

- 4 of 4 CORs selected at APCD did not receive training.
- 3 of 5 CORs selected at the Library did not receive training.
- 2 of 5 CORs selected at OES and CFA<sup>4</sup> did not receive training.

Lack of adequate and timely contract administration training increases the risk that CORs will not have sufficient expertise to manage and monitor contracts effectively or adhere to standardized procedures outlined in DPC guidance. Refer to footnote on page 6 for additional criteria applicable to this finding.

**Contract Administration Training is Not Mandatory** – The County lacks a mandatory training program for CORs. Absence of a mandatory COR training program increases the risk that CORs and approvers lack the required knowledge and skills to perform contract administration duties accurately and consistently across departments. There is also increased risk that departmental administration practices do not adhere to standardized procedures outlined in DPC guidance.

According to the Office of Federal Procurement Policy, “establishing a COR training and certification program is a well-balanced approach that prepares the COR to perform the job and also strengthens contract administration. Many agencies have a mandatory COR training program.”

Per Admin Code, Section 407, the DPC Director is responsible for coordinating efforts to improve the County’s contracting process, including but not limited to, the development of standard procedures for the selection of contractors, standard contract provisions, standardized and simplified review procedures, and standardized contract administration practices. The DPC Director shall monitor and evaluate procedures and

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<sup>4</sup> Sample CORs from CFA included the CFA Program Manager who acts as a COR.

provide assistance to the various County departments in respect to contracting.

Further, Admin Code, Section 426, states that the DPC Director is authorized to prepare rules, regulations, and procedures implementing and supplementing the applicable statutes, provisions of this code, and Board policies relating to the performance of Purchasing and Contracting functions.

**Recommendations:** To ensure CORs have the necessary skills and knowledge to manage and monitor contracts, DPC should:

1. Implement a mandatory contract administration training program for CORs.

To ensure that contracts are properly managed and monitored, APCD, Library, OES, and CFA should:

2. Identify current CORs that have not attended DPC COR Training to ensure that standardized contract administration training is obtained.

**Finding V: Opportunities Exist to Improve Clarity When Drafting Contract Language**

OAAS found that the contract language and provisions were not always consistent between the body of the contract, amendments, and exhibits. Also, contract provisions were overly general or lacked adequate descriptions. Vagueness and unclear contract language could result in inaccurate payments to vendors, failure to receive contract services, vendor disputes, and inability to enforce the contract. Specifically, the following issues were identified:

**Inconsistent Contract Provisions** – DHR Contract No. 539507 was found to have conflicting language. Specifically, OAAS found that the COR approved payments for the purchase and printing of training materials that were not authorized in the contract price schedule. According to DHR staff, while the fees were not included in the price schedule, the fees were allowed in the vendor's proposal which was incorporated by reference in the contract document and included as an attachment.

DPC explained that the vendor's proposal is sometimes included as part of the contract to provide additional details that the contractor may have included as part of their response. However, DPC confirmed that the contract price schedule prevails over the vendor's proposal, per the order of precedence stated in the contract.

Including the vendor's proposal with conflictive language into the contract document resulted in ambiguity and conflict with the pricing terms outlined in the contract, and may result in improper payment and disputes with contractors.

**Supporting Documentation for Mileage** – To minimize fraudulent claims, most organizations require employees to submit a mileage log in order to get reimbursement for this expense. For example, County employees are required to submit detailed information regarding requests for mileage reimbursement. This information includes travel times and dates, start and stop locations, total number of miles traveled, and a reason for the trip. OAAS found that DHR Contract No. 539507 only requires travel times and rates be included on the vendor's invoice. According to DPC, billing requirement for mileage in County contracts is not standardized. Lack of proper supporting documentation increases the risk that the County is incorrectly billed for mileage.

**Unclear and Vague Statement of Work** – The SOW in DHR Contract No. 549644 stated the following:

“Contractor shall assist in the development of various employee communication materials for open enrollment communications. This may include an electronic price comparison tool (as cost estimator tool).”

OAAS found that the SOW was vague and did not include specific, measurable actions the contractor is obligated to perform in the development of communication tools. According to DHR the contractor refused to create the communication tool without additional payment based on the language of the SOW. As a result, the contractor was paid more than was authorized by the contract.

**Recording Contract Award Amount** – OAAS identified errors in the contract amount awarded. Specifically, DHR Contract No. 551684 incorrectly listed the total contract award amount as \$1,752,015 rather than \$1,751,415. Based on OAAS' review, it appears that one of the contract years was overstated by \$600 dollars and the error carried forward through subsequent contract amendments undetected.

Unidentified errors increase the risk that incorrect contract award amounts will be encumbered in the County's financial system and/or paid to the contractor.

**Recommendations:** To ensure consistency of contract provisions, DPC should:

1. Incorporate steps into its existing process to review for consistency and accuracy of contract language and contract award contained in the contractual documents and subsequent exhibits, including the vendor's proposal.

To ensure consistency of contract provisions and authorization of costs, DHR should work with DPC to:

2. Amend Contract No. 539507 and/or subsequent contract(s), including, but not limited to:

- Update the price schedule to agree with the information included in the vendor's proposal and to clarify deliverables related to printing training materials.
  - Revise the contract billing requirements to ensure that sufficient support for mileage is obtained.
3. Amend Contract No. 551684 to correct the contract award amount.
  4. Amend Contract No. 549644 including, but not limited to:
    - Revise the SOW to include specific deliverables for development of open enrollment communication tools.
    - If necessary, update the price schedule and contract award amount to include prices for development of electronic price comparison tools.

**Finding VI:****Internal Controls Over Contract Amendments Can Be Improved**

Departments are required to initiate a contract amendment to update a contract each time there is a change in terms and conditions.

**Library Contract No. 501048**

The contract was initiated with Innovative Inc. on November 12, 2003 for the implementation of Millennium, an integrated automation system, not to exceed \$564,083, excluding system support services. The contract indicated that upon live circulation of the system, support services would be provided by renewing the contract on an annual basis. As of June 28, 2016, there were 37 contract amendments filed for this contract. Specifically, the following was noted:

**Changed Contract Number** – During the audit, OAAS identified an active Library contract established in 2003 with two different contract identification numbers (46595 and 501048). The change in contract number was documented in Contract Amendment No. 23 dated March 2014. According to the Library, limitations in the number of lines that can be added to a record in Oracle prevented them from adding contract amendment information, and the contract number was changed as a workaround. However, reference to the previous contract number was not documented in subsequent contract amendments or expenditure reports. Therefore, subsequent invoices were not easily traced through Oracle.

Proper contractual documentation requires the use of a unique contract identification number to track and identify the contract and related records throughout its life. Assigning a different number to a contract with no reference to the previous contract number, could result in the inability to account for, and manage, all relevant records.

**Service Continuation Without Contract Authority** – The original contract term indicated that the contract would continue until system



acceptance. While the contract outlined each phase prior to system acceptance, it did not specify a date of contract termination. Contract Amendment No. 1 was filed to include additional services to the contract that were provided between 2005 and 2009. This amendment increased the contract amount by \$602,175 and was effective May 1, 2005, but it was signed on April 10, 2009. Therefore, it appears that the original contract expired prior to May 1, 2005 while services were still being provided and payments were made without specific contract authority. Contract activity during that period was outside the scope of this audit, therefore no further audit work was conducted.

**Adding Services Outside the Scope of Work of the Original Contract** – OAAS' review of the contract amendments determined that in addition to system support, services outside the original scope of work were added. Specifically, over the course of the contract, several services were added including subscriptions to SkyRiver Technologies, Encore Reporting, Link+ Catalog Services, and Content Café.

**Number of Contract Amendments** – OAAS found that multiple contract amendments were signed on the same day, with the same effective date, to increase available funding. Moreover, the amendments did not consistently include clear language or sufficient information to adequately document changes to the contract.

Using contract amendments to modify agreements is an effective way to make changes to a contract because they require minimal effort and negotiation. However, in this case, the number of amendments and related scope of work changes filed for this contract were not just inefficient but resulted in a very complex contract that is difficult to comprehend and manage. Also, it created additional workload for the COR and DPC staff.

**Backdating Contract Amendments** – Audit work found that 19 of the contract's amendments were backdated. OAAS did not obtain sufficient evidence to ascertain the reason for this practice.

Establishing contract effective dates prior to contract execution increases the risk of liability due to misrepresentation between effective date and signing, compliance issues, and assumption of unanticipated obligations.

**Incomplete and Missing Contract Amendments** – The Library could not locate Amendments No. 18 and 20. OAAS verified that the contract amendments increased the total contract award amount. DPC confirmed that copies of these amendments were not on file. Further, Contract Amendment No. 21 was not signed and approved by DPC staff.

**Unclear Accountability of Revised Contract Price and Added Amounts** – OAAS identified a discrepancy between the initial contract award plus the increased award amount established in Amendment No. 1, and the revised contract total price also summarized on Contract Amendment No. 1; as illustrated on the following page:



**Table 3: Contract No. 501048 (46959) Error in Contract Award Amount**

Initial Contract Award (a)	Increased Amount – Per Amend. No. 1 Detail Costs (b)	Revised Contract Award – Per Amend. No. 1 Total	Revised Contract Award – Per OAAS (a+b)	Difference
\$564,083	\$602,175	\$1,667,871	\$1,166,258	\$501,613

Further, OAAS noted that Amendment No. 31 (signed on May 11, 2015) approved additional funding of \$168,156 for the annual maintenance of the Millennium System for the period of June 1, 2015 through May 31, 2016. However, Amendment No. 33 approved \$154,143 (signed on June 10, 2015) for the annual maintenance of the Millennium System for the period of July 1, 2015 through May 31, 2016. As such, it appears that the \$154,143 increase on contract award processed on Amendment No. 33 was a duplicate of the increase approved on Amendment No. 31.

OAAS did not conduct audit work on the contract payments processed during the period since it was outside the scope of this audit. Therefore, OAAS did not substantiate that duplicate payments were made.

Audit work also revealed issues with contract amendments at another department as follows:

#### **CFA Contract No. 530235**

**Incorrect Numbering of Contract Amendments** – Audit work found that the amendments processed for the contract were numbered out of sequence. CFA provided copies of Amendments No. 1, 2, and 5. OAAS found that there were in fact only three amendments, and the third amendment had been inadvertently numbered as Amendment No. 5.

Ineffective controls over the contract amendment process may result in unnecessary workload and confusion.

**Recommendations:** To ensure contractual documentation is adequate and complete, DPC should:

1. Develop standardized procedures for the development of contract amendments aimed to educate CORs and DPC staff to enhance consistency of the process. Procedures should include, but not be limited to:
  - CORs' responsibilities in the contract modification process. Including a thorough review of terms listed in contract amendments; such as description of change, effective dates, and pricing.

- Importance of maintaining complete contract files, including contract amendments.
- Guidance to CORs to determine whether additional contract amendments are necessary, or whether it is more efficient to amend and restate the agreement (A&R Agreement).
- Ensure that subsequent contract amendments and other relevant records refer to previous contract numbers used.
- Conducting a thorough review of amendments before they are finalized to ensure sequential numbering and avoid duplicates.

To ensure that contract amendments are accurate and reliable, the Library and CFA should:

2. Develop a process for CORs to conduct thorough reviews of contract amendments created by DPC to ensure appropriateness, completeness, and timeliness before the amendment is finalized.

To avoid additional contract complexity and gaps in contractual documentation, the Library should:

3. Evaluate Contract No. 501048 and determine whether incorporating the newest proposed amendments into an A&R Agreement is more appropriate.

#### **Finding VII:**

#### **Internal Controls Over Payments to Contractors Can Be Improved**

From the sample of contracts selected for the audit, OAAS selected a judgmental sample of 61 contractor invoices for detail testing to determine whether sufficient review was conducted prior to payment authorization and accurate payment was processed.

**Table 4: Number of Invoices Reviewed By Department (Program)**

Department	No. of Invoices Reviewed	Total Value of Expenditures
APCD	7	\$ 602,806
DHR	22	\$ 678,385
Library	18	\$ 320,836
OES	1	\$ 17,700
CFA	13	\$ 466,940
<b>TOTAL</b>	<b>61</b>	

OAAS' review found no exceptions related to the APCD, Library, and OES invoices. However, several issues were found during the review of the DHR and CFA invoices as described on the following page:

### **DHR Invoice Payment Process**

**Overcharges for Services** – One of the invoices reviewed for Contract No. 539507 identified an overcharge of \$4,400 for a training course. Specifically, the invoice included billing for two trainers at a full-day rate each. A review of the contract showed that DHR had agreed to pay by the length of the training (i.e. half-day or full-day) instead of the number of trainers presenting at the course. As a result, DHR overpaid \$4,400 for the training course.

**Insufficient Supporting Documentation** – Three invoices reviewed for Contract No. 539507, claimed mileage reimbursement. The contract requires the vendor to submit travel times and rates on the invoice in order to be reimbursed for mileage. Upon review of the invoices, it was noted that the vendor did not provide sufficient information to verify and support the mileage claimed.

**Payments Made for Services at Rates Not Authorized by the Contract** – The review of four invoices for Contract No. 544660 found that charges for re-performing psychological screening were invoiced at a lower rate than the one stated in the contract. Upon further research, OAAS found that the COR renegotiated lower fees charged by the contractor for re-performing these tests. However, this price adjustment was not formalized via contract amendment.

In addition, OAAS' review of one invoice for Contract No. 549644 found that a \$60,000 payment was approved without explicit contract authority. The charge was billed for developing an electronic price comparison tool for County employees during open enrollment. This service was determined to be outside the scope of work of the contract.

**Insufficient Description of Invoiced Services** – Five invoices reviewed for Contract No. 539507 included charges for services provided without sufficient descriptions of these services. Specifically, the invoices included charges for "consultation services." A review of the contract found that the vendor offers a number of threat and ancillary type consulting and training services which are priced differently based on subject matter. The invoices did not indicate whether threat or ancillary services were provided to DHR. As a result, it was unclear whether the contractor was charging appropriate rates. According to DHR staff, due to the highly sensitive information on these services, the descriptions are not included directly on the invoice. Further, because management works closely with the contractor, the types of services are known regardless of the descriptions included on the invoices.

### **CFA Invoice Payment Process**

**Insufficient Invoice Review Prior to Payment Approval** – Detail invoice testing of Contract No. 545864 with CalFire identified errors related to internal controls over invoice approval, billing, and compliance with contract terms. The CFA entered into a five-year contract with CalFire for

fire protection services throughout the County. As part of the contract, CalFire submits quarterly invoices for reimbursement of wages, per diem, and operating expenses for various stations located throughout, and owned by, the County.

OAAS found that CFA does not have a process for completing in-depth reviews of invoices related to the CalFire contract. Specifically, CFA approved payment for salary reimbursement without supporting documentation such as work schedules, signed timesheets, and approved overtime slips to ensure accuracy of invoiced amounts and eligibility for special pays. As a result, OAAS was unable to verify the accuracy of the amounts billed for regular, overtime, and special pays.

**Payments Inconsistent with Contract Provisions** – One of the invoices selected for review of Contract No. 545864, contained numerous charges and transactions. As such, OAAS selected a judgmental sample of 33 transactions for further detail testing. OAAS noted the following discrepancies:

- Benefit Rates Not in Accordance with the Contract: Benefit rates charged to CFA were higher than rates specified in the contract. OAAS calculated the benefit rates in the contract and invoices and determined that CFA approved payments for benefits of \$15,358 more than was established by the contract.
- Contract Did Not Include All Utilized Positions: OAAS found that 14 of the positions billed for reimbursement were not listed in the contract because the contract was not amended. These positions include:
  - 1 Fire Fighter II
  - 6 Fire Fighter II (Paramedic)
  - 2 Fire Apparatus Engineer (Paramedic)
  - 3 Fire Captain
  - 2 Forestry Aides
- Salary Reimbursement Claims Not Consistently Itemized: The CalFire contract lists salaries by position type and special pays separately. Claims for salary reimbursement were not consistently itemized to clearly differentiate regular pay from special pay. For instance, for one safety position, the invoiced “salary” amount was the sum of the employee’s monthly salary and four pay differentials. As a result, OAAS could not easily trace invoiced salary amounts to the contract stated rates. Inconsistent billing methods increases the staff time spent reviewing and approving invoices.

According to CFA staff, the contract with CalFire is a cooperative agreement that by California Public Resources Code, Sections 4141-4144, requires CFA to reimburse actual costs incurred by CalFire. As such, CFA reimbursed all costs claimed by CalFire, even though the rates listed in the contract were not always consistent with the rates included in the invoices.

While CFA is responsible for reimbursing all costs incurred by CalFire, there was no evidence of a detail review conducted by the COR that should have questioned the discrepancies noted during the audit and documented reasons for approval.

**Insufficient Supporting Documentation** – As part of the detail testing of five invoices for Contract No. 530235, OAAS reviewed labor expense for 33 positions claimed by the contractor and obtained supporting documentation. The review found:

- Missing Supporting Documentation: OAAS determined that 4 of 33 timesheets were missing. Therefore, CFA was unable to substantiate the labor hours claimed in the invoice.
- Missing Timesheet Approvals: The CFA approved labor claim reimbursements without proper approvals on timesheets. Specifically:
  - 4 timesheets were missing the supervisor's signature.
  - 13 timesheets were missing the employee's signature.
- Payment Errors: OAAS found that the contractor claimed reimbursement of \$5,452 for the monthly salary of a Volunteer Liaison position. The contract states that the monthly salary range for this position is \$5,052 to \$5,570. Similar labor charges listed on the invoice indicate that the number of working hours per month is between 168 to 176 hours. Based on that information, the anticipated hourly reimbursement rate for the position would have been between \$28.70 and \$33.15. However, supporting documentation showed that this position did not work full time, and only reported 96 hours for the month. Accordingly, reimbursement was claimed at a rate of \$56.79 per hour. Labor reimbursement requested and approved for the position was not adequately prorated. Refer to footnote on page 6 for additional criteria applicable to this finding.

Insufficient internal controls over invoice review and approval increases the risk that inaccurate payments are processed. Further, unclear and/or incomplete statement of work can also increase the risk of contract budget overruns, and that anticipated goods and services are not provided.

**Recommendations:** To enhance internal controls over contract invoice processing and payment approval, DHR should:

1. Establish a process that ensures invoices include adequate and complete supporting documentation before payment approval is processed. This documentation includes clear descriptions of services provided and detail support for mileage claimed.
2. Work with DPC to amend Contract No. 544660 including, but not limited to, updating the contract price schedule to amend the price of retesting of Peace Officer candidates.

3. Work with DPC to amend Contract No. 549644 or subsequent contracts including, update the price schedule and contract award amount to include prices for developing electronic price comparison tools.
4. Ensure that the current CORs attend training for in-depth invoice review.

To establish adequate internal controls over contract invoice processing and payment approval, the CFA should:

5. Ensure that the current CORs attend training for in-depth invoice review.
6. Develop an in-depth invoice review process to ensure that expenses claimed are accurate, including but not limited to:
  - Ensure that adequate and complete supporting documentation is provided and retained in the contract file.
  - Descriptions of benefit rates and services on vendor invoices align with the services listed on the contract price schedule.
7. For Contract No. 545864, work with DPC to update the contract to reflect the current and actual rates charged, positions utilized, and actual operational budgets.
8. For Contract No. 530235, request and review missing supporting documentation to ensure that time billed is accurate.

**Finding VIII:**

**Controls over Budgeting, Encumbrances, and Recording Contract Expenditures Can Be Improved**

OAAS reviewed Contract No. 549644, and noted that DHR was able to make payments exceeding the contract award amount because it did not properly record revenues, expenditures, and encumbrances related to the contract.

DHR entered into a contract for brokerage services related to the County's health and benefit welfare plans. Under the terms of the contract, the contractor was entitled to no more than \$360,000 for broker/consulting fees for FY 2015-16. The bulk of this payment would be made from commissions paid directly to the contractor by the 3rd party health care providers used by the County. The contract also stated that if the contractor received more or less from the 3rd party providers, DHR and the contractor would settle the balance.

According to the Auditor and Controller – Financial Accounting and Reporting (A&C-FAR), the broker fee is owed by the County to the contractor, and the County has a separate relationship with the 3rd party service providers, wherein the providers owe the County certain

revenues. Instead of the County paying the vendor a broker fee and the providers paying the County, the providers pay the vendor directly and bypass the County. As a result, if this contract did not exist, the providers would submit the funds directly to the County for deposit. Thus, this contract creates a pass-through transaction.

According to the Statement of Financial Accounting Concepts No. 6, Paragraph 146, "Matching of costs and revenues is simultaneous or combined recognition of the revenues and expenses that result directly and jointly from the same transactions or other events. In most entities, some transactions or events result simultaneously in both revenue and one or more expenses. The revenue and expense(s) are directly related to each other and require recognition at the same time."

Although no cash is exchanged between the providers and the County, these transactions create legitimate revenue and expenditures for the County, and therefore must be recorded. However, OAAS found DHR did not record the funds as revenue to the County, or expenditures to the contractor. Further, DHR did not reduce the contract encumbrance to reflect that the contractor was paid in full.

**Recommendations:** To ensure proper controls over departmental budgets, encumbrances, and recordation of contract expenditures, DHR should:

1. Work with A&C to develop a process and time schedule for the proper recordation of revenues, and reduction of related encumbrances.
2. Adjust the departmental budget and forecasts to decrease the general fund monies needed for the contract, and to account for the projected revenues and expenditures.

**Finding IX:**

**Contract Monitoring Practices Need Improvement**

Effective contract administration and assurance of contract performance involves adequate contract monitoring. The DPC COR Training describes COR overall responsibilities to ensure contract compliance and program effectiveness, including technical monitoring and review of expenditures.

OAAS identified exceptions related to the administration and monitoring of contracts as follows:

**Insufficient Documentation of Contract Monitoring Activities** – The DPC COR Training instructs CORs to develop a Quality Assurance Surveillance Plan (QASP) to be used as a monitoring tool. A template of the monitoring plan is provided as a guide in the development of monitoring activities, and a schedule for the completion of these activities.

Audit detail testing involved a review of monitoring plans and supporting documentation to determine whether contract monitoring activities were conducted by the CORs. OAAS' review identified a number of contracts that did not have a monitoring plan on file and/or sufficient documentation

on file to substantiate the monitoring activities conducted, as illustrated on the table below:

**Table 5: Missing QASP and Evidence of Monitoring Activities**

Department	Contract No.	Monitoring Plan on File	Evidence of Monitoring Activities
Library	538118	No	Yes
	550688	No	No
	501048	No	No
	550506	Yes	No
OES	554447	Yes	No
CFA	545864	No	Yes
	530235	No	No
	552828	No	Yes

Developing a QASP ensures that systematic quality assurance methods are used. Also, it assists the COR in identifying how and when surveillance will be performed. Formally documenting monitoring activities conducted serves as evidence that these activities were performed by the COR.

Lack of a documented QASP increases the risk that adequate and timely contract monitoring activities are not performed. Insufficient documentation of monitoring activities conducted, results in the inability to determine whether these activities were performed.

**Insufficient Control of Expenditures By Fiscal Year – CFA Contract No. 545864** with CalFire outlined specific expenditure type and amount by fiscal year for which the CFA was responsible. Per the scope of the audit, OAAS reviewed FY 2015-16 expenditures and found that while the contract's price schedule listed \$299,055 for operating expenditures, CFA paid \$1,048,854. This amount was reimbursed to the contractor for operating expenses related to multiple fire stations. This resulted in an additional administrative charge of \$94,399 above the amount listed in the contract. The administrative fee is calculated as a percentage of the actual reimbursed operating expense.

OAAS noted that CFA did not require the contractor to obtain approval or provide justification of expenditures before purchasing equipment. CFA does not have a process in place to reconcile budgeted operating expenses to actual operating expenses.

According to CFA staff, the contract with CalFire is a cooperative agreement that by California Public Resources Code, Sections 4141-4144, requires CFA to reimburse actual costs incurred by CalFire. As such, CFA reimbursed all costs claimed by CalFire even though the amounts listed in the budget schedules were not always consistent with the amounts included in the invoices.



**Non-compliance with Reporting Requirement** – APCD's grant agreements require grantees to provide APCD with annual status updates of the new and upgraded equipment, to allow APCD and the State to track the effectiveness of the air quality grant programs. OAAS found that for 3 of 5 grant agreements reviewed, grantees did not submit all required annual status reports to APCD.

According to APCD, each contract includes an enforcement clause unequivocally stating that APCD may suspend or terminate the contract for grantees' failure to provide timely reports. Further, APCD's Policy and Procedure Manual states that a grantee's compliance with status reporting is required prior to the final payment and release of withhold. Non-compliance with the reporting requirement may result in audit inspections and/or onsite monitoring.

OAAS found APCD's current payment practices do not require a partial withholding of funding to grantees in order to compel grantees to continue to report. Further, APCD did not suspend or terminate the contract, or initiate inspections or monitoring for any of the contracts reviewed with missing status reports.

Lack of emission data increases the risk that APCD may not be able to track actual air quality information, ownership of equipment, and publish accurate reports. Consequently, the amount of funding granted to APCD, but not yet distributed to grant recipients, could be reduced.

**Recommendations:** To ensure the proper ongoing administration and monitoring of contracts, the Library, OES, and CFA should:

1. Formalize a process for developing a QASP or contract monitoring plan for each contract, outlining areas to be evaluated and the surveillance methodology to be used. Also, ensure that monitoring plans are updated, as necessary and approved by management.
2. Ensure that contract monitoring activities are formally documented and maintained in the contract file as evidence that periodic reviews are conducted.

To improve management oversight of contract expenditures and contract performance, CFA should:

3. Establish internal control procedures over expense reimbursement, including but not limited to:
  - Develop a process to monitor and reconcile budget expenditures to actuals expenditures.
  - Obtain contractor justification for claimed expenses not explicitly listed in the contract schedule or exceeding the annual budget amount.

4. Develop a plan to conduct periodic on-site monitoring of the fire stations, including conducting periodic physical inventories and maintaining a list of operating equipment purchased under the contract.

To improve management oversight of grant agreement project deliverables, APCD should:

5. Develop a process for ensuring annual status updates for emissions are obtained for grant agreements, including but not limited to, supervisory review, and required actions that should be taken in the event that grantees do not comply with reporting requirements.
6. Review contract language, policies and procedures, and practices related to withholding funding until grantees comply with reporting requirements to ensure documents align, and are clear, consistent, and attainable.

## **CHAPTER 2                      AUDIT RESULTS FOR ACS**

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### **Background**

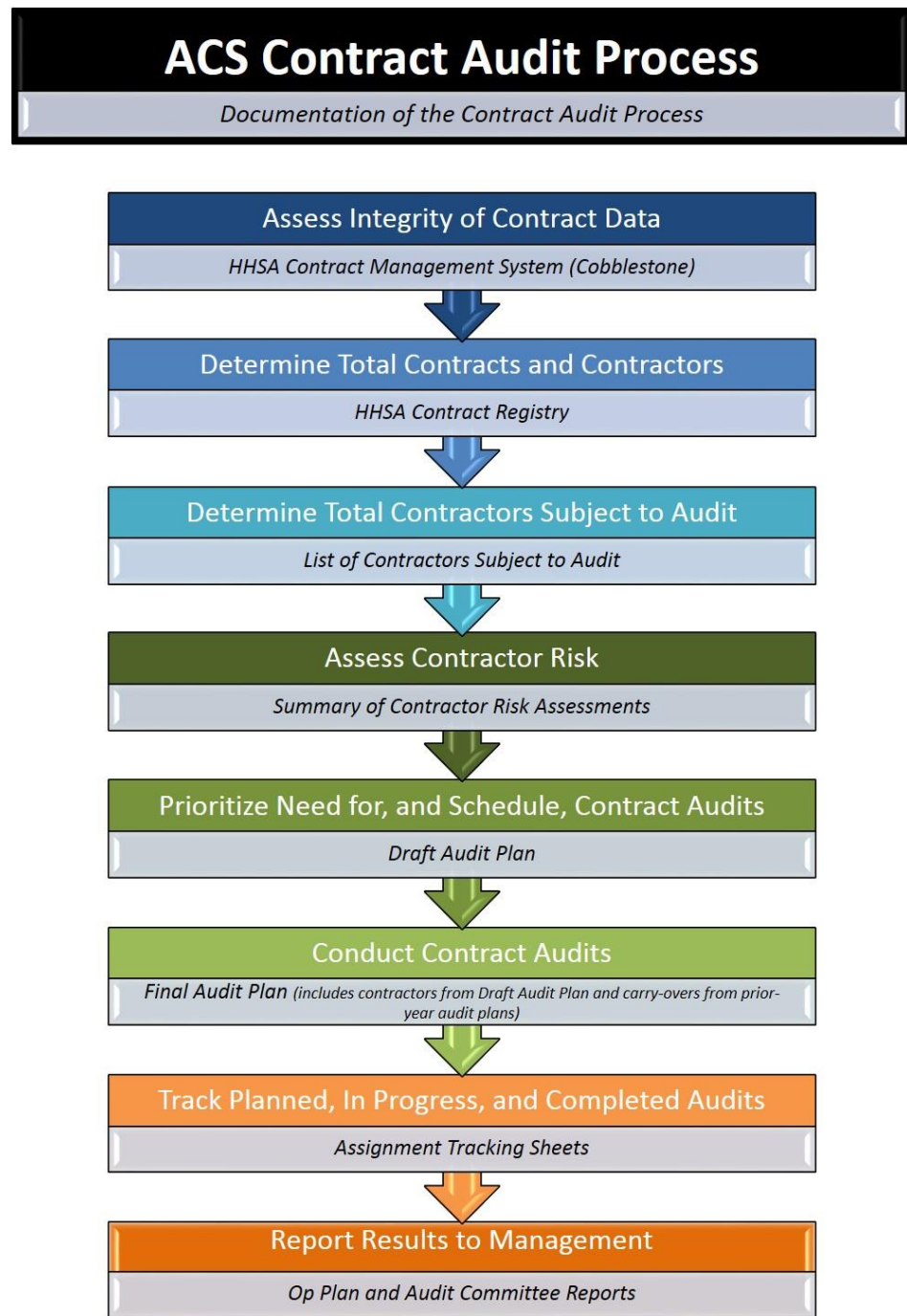
HHSA has a comprehensive approach to the contract administration function in support of the County's General Management System (GMS) which requires monitoring, control and evaluation of all services, including those provided by contractors. HHSA established ACS to lead the overall coordination of the contracting function, including contractor monitoring and quality assurance of work performed by CORs. ACS works directly with the Regions/Divisions to help ensure contractors are in compliance with requirements established by Federal, State, and local funding sources.

HHSA utilizes Cobblestone Systems (Cobblestone) as their contract management system. Cobblestone is web-based software that manages contract data from end-to-end. According to the HHSA Contract Related Roles and Responsibilities Matrix, the Regions/Divisions are responsible for entering contract information into Cobblestone, and ACS is responsible for maintaining the contract registry in Cobblestone, determining whether data fields should be added/deleted/modified, and ensuring data accuracy.

ACS also utilizes Cobblestone contract data to identify all contracts within HHSA for the development of the annual Contract Audit Plan and Quality Assurance (QA) Plan.

Based on the HHSA policies reviewed by OAAS, ACS is responsible for assessing contractor risk annually, and conducting a fiscal stability audit for select contractors on a triennial basis. HHSA has developed internal policies and procedures for the contract management and oversight function. These policies describe specific activities for contract audits.

As shown on the chart on the following page, ACS follows a multi-step contract audit process.



ACS is also responsible for conducting periodic QA reviews of Region/Division compliance with HHSA standards and guidelines for contracting processes. To accomplish this, ACS' QA developed tools for the review of the work performed by the COR's of each Region/Division. Also, an annual schedule of QA reviews is published for the Regions/Divisions' reference. According to the ACS' QA Review Process, the QA review should take approximately 45 business days.

**Finding X:****Contract Management and Monitoring Policy Improvements Needed**

OAAS' detailed review of these policies identified the following areas of improvement to increase clarity and consistency of processes:

**Insufficient Audit Criteria Outlined Within the Contract Administration Policy** – HHSA Policy No. HHSA-G-4.11, Contract Audits (HHSA-G-4.11) states that ACS will perform audits in accordance with contract terms and conditions and with OMB Circular A-122 "Cost principles for Non-profit Organizations" (A-122). While ACS conducts contract audits for non-profit and governmental agencies subject to A-122, contract audits are also conducted for educational institutions, hospitals, and for-profit agencies.

**Inconsistencies Exist Between Contract Monitoring Policies** – OAAS noted discrepancies with two of the policies that govern the ACS function. Specifically, HHSA Policy No. HHSA-G-4.10, Contract Audit Assessment (HHSA-G-4.10) requires that all HHSA service contractors have a contract audit completed at least once every three years. However, policy HHSA-G-4.11 requires ACS to perform contract audits of all HHSA contractors, excluding governmental entities and fire districts, once every five years.

**Unclear Policy Objective** – ACS policies are unclear as to whether ACS should use a time-based or risk-based approach to determine priority for conducting contract audits.

- Impractical Requirements for the Frequency of Contract Audits: ACS' policy states that contractor risk should be assessed every year. The policy also requires that an audit be completed for each contractor every three years. ACS prepares an annual audit plan to prioritize and schedule audits. However, ACS' audit plan process is not designed to ensure that each contractor will receive a contract audit every three years.

Based on the information reported by ACS, HHSA had an average of 548 contractors per year from FY 2013-14 through FY 2015-16. In order to perform a contract audit of every contractor, ACS should have completed approximately 182 contract audits per year. However, ACS' audit plan included an average of 53 audits per year. The actual number of audits completed during the period was approximately 44 audits per year.

**Table 6: Average Number of Planned and Completed Contract Audits from FYs 2013-14 to 2015-16**

<b>Fiscal Year</b>	<b>Total Contractors<sup>5</sup></b>	<b>Planned Audits</b>	<b>Completed Audits<sup>6</sup></b>
2013-14	551	56	36
2014-15	551	57	47
2015-16	543	45	50
<b>Averaged Total</b>	<b>548</b>	<b>53</b>	<b>44</b>

Unfeasible policy requirements related to the frequency of contract audits results in unachievable goals set by management. Also, it increases the risk that audit plans are not developed to properly address contractors with a higher risk to the County.

**Recommendations:** To increase the efficiency and effectiveness of contract administration and monitoring processes, ACS should:

1. Review contract administration policies and procedures to address issues noted, including but not limited to:
  - Incorporating relevant audit standards and guidelines applicable to all agencies subject to contract audit.
  - Adding clarity and consistency to outlined procedures.
  - Including key factors that identify contractors not eligible for an audit, before conducting a full risk assessment.
2. Evaluate frequency of contract audits required in the policy to ensure feasibility and alignment with ACS objectives and strategic planning.
3. Communicate the changes by providing training to ACS staff on updated contract administration and monitoring policies.

**Finding XI: Opportunities Exist to Enhance Usability and Accuracy of Cobblestone**

OAAS identified issues related to the completeness and integrity of the data captured in Cobblestone. Specifically, the following was noted:

**Key Data Used in the Contractor Risk Assessment and Audit Planning Processes is not Captured in Cobblestone** – OAAS found that the contract database maintained in Cobblestone does not capture the date of the last contract audit performed. This information is critical to identify contractors that had been audited within the last three years and assigning an accurate risk score.

<sup>5</sup> ACS total number of contractors reported to OAAS 4<sup>th</sup> Quarter, FY 2015-16.

<sup>6</sup> Completed audits include all audits completed from prior year and current year audit plans during the fiscal year.

OAAS noted that ACS uses the last contract audit date in various documents, including the summary risk assessment and the audit plan, to identify the number of contractors that have been audited during the previous three years. However, our review of FY 2015-16 documents found discrepancies. Specifically, the summary risk assessment identified 85 contractors with an audit conducted from FY 2012-13 to FY 2014-15; while the audit plan only identified 74 contractors with an audit conducted for the same time period.

Including key contract data in Cobblestone, such as the completion date of the last audit, would increase the efficiency of contract risk assessment and audit planning activities.

**Issues Found in Cobblestone** – OAAS’ review of FY 2015-16 contract data recorded in Cobblestone identified 1,045 records of contracts. The review of these records found the following issues:

- 314 contract records with blank under “Total Contract Amount.”
- 4 contract records in which the field “Contract Type” was blank and 19 instances that it was listed as “other.”
- 1 contract record in which the contract number recorded was a telephone number.
- 2 contracts had listed an “end date” before the “start date.”
- 1 duplicate record.

Cobblestone relies on a manual process to input new and updated contractor information. As such, the contract registry is susceptible to data entry error. Insufficient input controls, such as non-restricted data fields, result in increased risk that contract data is unreliable and inaccurate.

**Using Vendor ID Would Make ACS’ Processes more Efficient** – ACS’ contract audit plan involves numerous documents and reports, including the initial contract registry, risk assessment, list of contracts subject to audit, final audit plan, audit report, and assignment tracking sheets. Ability to track a contract throughout the process is important to ensure that all contracts are audited, as required by policy.

While Cobblestone includes the vendor ID for each contract, ACS filters this information out when developing the contract registry. Tracking data through ACS’ various reports can be a cumbersome process because contractors are tracked solely by name, which is subject to change, and data entry errors may occur during the process. As a result, the ability to easily track contractors throughout the audit process is removed.

Excluding vendor IDs from large volumes of data prevents staff from implementing important detective controls, such as reconciliations and

verifications in the most efficient manner possible and could ultimately result in unreliable and inaccurate data.

**Recommendations:** To enhance the integrity and accuracy of contract data, ACS should:

1. Add a field within the Cobblestone database that captures the date of the last contract audit conducted.
2. Develop written procedures for conducting and reviewing evaluations of the data maintained in Cobblestone to identify and correct inaccurate or missing data in key fields; including, but not limited to: contract number, contract type, contract award amount, contract start date, and contract expiration date.
3. Analyze the identified data entry errors and develop appropriate data input controls to ensure that accurate and complete information is entered into Cobblestone.
4. Maintain the Cobblestone vendor ID field when extracting contract data and developing reports related to the contract audit plan.

**Finding XII:**

**Improve Contractor Risk Assessment and Audit Plan Processes**

OAAS analyzed documents and reports created by ACS for the preparation of the risk assessment and the audit plan and identified errors and inconsistencies throughout the process. The issues noted are summarized below:

**Incorrect Number of Active Contracts Identified –** HHSA Contract Statistics report dated July 2015, reported a total of 949 active contracts for FY 2015-16. The HHSA Contract Registry provides detailed information on the contracts summarized in the HHSA Contract Statistics report. OAAS conducted a review of the HHSA Contract Registry and found that approximately 33 of the 949 contracts had expired on June 30, 2015. While ACS indicated that the list of contracts is pulled within the first month of the fiscal year to ensure newly awarded contracts are included, they do not filter the contract data to ensure expired contracts are removed from the list.

Insufficiently defined parameters for creating reports increases the risk of inaccuracies in data reported.

**Inconsistencies Noted in the Process to Identify Contractors Subject to Audit –** HHSA Contract Statistics reported 543 contractors during FY 2015-16, from which 352 were identified as subject to audit in the initial risk assessment performed by ACS. OAAS reviewed the supporting documentation and determined the following:

- Contractors Incorrectly Included: According to policy HHSA-G-4.11, all contractors, except for governmental agencies and fire districts, should be considered for an audit. ACS did not remove governmental entities and fire districts from the list of contractors subject to audit, as



required by policy. According to ACS, these entities are not removed because ACS does not have a way to filter the information to identify and remove government agencies and fire districts.

Further, a review of the Cobblestone field definitions showed that Cobblestone has a field to identify the corporation type. This field could be used to specify whether the vendor/contractor is a government entity or fire district.

- Contractors Incorrectly Excluded: ACS determined that certain contractors<sup>7</sup> were not included in the initial risk assessment as subject to audit. According to ACS, HHSA Regions/Divisions or outside entities conduct their own reviews of those contractors. It is unclear whether the independent reviews provide sufficient assurance to the County of the fiscal stability of the contractor, as ACS does not evaluate the results of the reviews completed by the Regions/Divisions.

HHSA policies assign ACS the responsibility for performing contract audits and state that the Regions/Divisions have primary responsibility for managing contract-related processes. Further, the Matrix of Contract-Related Roles and Responsibilities document assigns responsibility to conduct fiscal stability reviews solely to ACS.

Lack of a systematic and consistent process to identify contractors subject to audit, could inhibit HHSA's ability to determine which contractors pose a significant risk to the County.

**Opportunities Exist to Improve Risk Assessment Criteria** – Policy HHSA-G-4-10, outlines that an annual risk assessment should be conducted on each contractor subject to audit and a fiscal assessment value should be assigned. The policy requires ACS to use this value to prioritize contract audits and assign the type of audit to be performed. The policy outlines certain elements ACS should consider when assessing contractor risk.

Based on this policy, ACS annually develops criteria to assess contractor risk. The criteria also defines the individual risk scores to assign to contractors based on an evaluation of the elements required by the policy; including information from the Independent Audit Report, A-133 Audit, financial ratios, prior audit findings, contract type, and frequency of contract audit. ACS staff gathers this information and assigns a score to each element ranging from 1 to 6. The sum of these scores determines the total risk score for each contractor.

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<sup>7</sup> Excluded contractors only have active contracts with the following HHSA Regions/Divisions: Aging and Independence Services (AIS), Public Administrator/Public Guardian (PA/PG), First 5 Commission, Child Welfare Services - Institutions Evaluation Unit (CWS-IEU), Eligibility Operations, and County Child Welfare Services (CCWS).

OAAS reviewed elements included in Policy HHSA-G-4-10 and ACS's criteria that were used to conduct the contractor risk assessment for the 352 contractors in FY 2015-16. Based on review, OAAS identified improvements to existing elements ACS uses to evaluate risk, as well as, new elements that ACS could use to further stratify contractors and enhance the usefulness of the assigned risk scores in predicting the future risk posed by contractors to the County. Specifically:

- ACS currently uses a one-year current ratio to assess the liquidity of the contractor. However, this ratio only provides information about the company's ability to meet its short-term obligations. Measuring additional financial ratios, such as the solvency ratio, would provide a better picture about the solvency of the company since it also includes the long-term debt.
- As shown in the table below, ACS assigns risk scores to contractors based on the "annual" contract award value of their contracts. However, annual contract award amounts can vary greatly from year to year. Also, ACS assigns the same contractors with an annual contract of \$500,000 or more the same risk score though the amount may include multiple contracts, and/or the value of some contracts can reach nearly \$50 million for the year.

**Table 7: Assessment Values for FYs 2015-16 Contract Values**

Assessment Value	Contract Value
6	Greater than \$500,000
3	Between \$250,000 and \$499,999
1	Between \$0 and \$249,999

- The entity type could be used to assess and rank the risk the contractor poses to the County. For instance, educational institutions may pose a different level of risk to the County than hospitals or governmental entities. Policy HHSA-G-4-10 only excludes certain entity types.
- Consideration of whether the contractor delivers critical services to the County is not included. The loss of critical services, including but not limited to, services that must be provided to the public for which a single, or limited number of contractors that provide such services exist, could pose a higher risk to the County than routine services.
- Results of the pre-award fiscal stability reviews conducted upon contract award could be used to assess risk in the early stages of the contract when other data is not yet available.

**Insufficient Controls Over Risk Assessment Scoring** – ACS conducted a contractor risk assessment on the 352 contractors identified as subject to audit for FY 2015-16. OAAS selected a judgmental sample of 30 contractors and performed a detailed review of the contractor risk

assessment. The review was done to determine whether ACS properly assigned risk scores to contractors based on defined criteria. Specifically:

- Insufficient data and supporting documentation available to validate the risk score assigned to 19 contractors.
- Errors noted on the risk score assignment spreadsheet that resulted in an incorrect risk score assigned to 5 contractors. Some of the errors noted include:
  - Assigning higher risk score to contractors for not having the A-133 audit on file when these contractors were not subject to A-133 audit requirements. According to ACS, current practice is that contractors indicate whether they are subject to the A-133. However, ACS does not independently verify whether the contractors are subject to the A-133 audit. As a result, there is increased risk that ACS will not identify contractors subject to an A-133 audit and may assign incorrect risk scores to contractors.
  - Assigning low risk score to a contractor with a prior audit finding.

Further, OAAS found no evidence of supervisory review and approval of risk score assignment and related processes.

**Did Not Follow Policy for Removal of Contractors from Audit Plan –**

After completing the Contractor Risk Assessment, ACS developed a Draft Audit Plan that was prioritized by the assessed risk score. ACS removed 97 contractors from the plan since they had a planned, in progress, or recently completed audit. ACS also removed 213 contractors from the Draft Audit Plan though those contractors did not require exclusion under HHSA's policy. Specifically, ACS removed contractors from the Draft Audit Plan for the following reasons:

- 116 contractors were removed because the annual fiscal contract award amount was less than \$60,000.
- 97 contractors were removed for various reasons, including:
  - contract had recently expired
  - contract was missing audit clause
  - contract pertained to AIS, PA/PG, and First 5 Commission
  - no contract payments were made
  - contract was for software license

Though Policy HHSA-G-4.11 only provides for removal of contracts with governmental agencies and fire districts from the plan, it does make sense that ACS would remove other contractors for some of the reasons listed above. However, HHSA's policy does not document the reasons that ACS may exclude contractors from the list.

As a result, ACS cannot ensure that it consistently removes contractors from the list each year.

**Inadequate Prioritization of Risk** – According to policy HHSA-G-4.10, as part of the contractor risk assessment, a fiscal assessment value (risk score) is assigned to contractors ranging from 8 to 58 (low risk to high risk). The policy states that contractors rated as high risk will have a full contract audit, and those with medium and low risk will have a desk audit.

A review of the FY 2015-16 Final Audit Plan showed that risk score was not a factor in the type of audit assigned to contractors. OAAS noted that risk scores were not broken down into low, medium, and high risk. As such, the risk score given to a contractor could not be easily reconciled to the type of audit it should be subject to. Also, OAAS found that 31 of the 45 contractors on the Final Audit Plan had the same risk score as at least one other contractor, yet the contractors were assigned different audit types, as illustrated in the table below:

**Table 8: Total Audits Assigned to Contractors for FY 2015-16**

Contractor's Risk Score	Type of Audit Assigned	
	Desk	Full
21	1	2
24	1	3
26	1	3
31	3	2
36	7	3
38	1	2
41	1	1

**Errors and Omissions in Audit Plans and Assignment Tracking Sheets** – A review of the Audit Plan and Assignment Tracking Sheets for the FYs 2013-14, 2014-15, and 2015-16 revealed errors. Specifically:

- For all Audit Plans reviewed, ACS did not assign and document the type of audit to be conducted for all contractors at the beginning of the fiscal year.
- The risk score for each contractor was not consistently included in the audit plans. As a result, ACS is unable to easily determine whether the correct audit type had been assigned.
- Insufficient documentation of carry-over audits to identify the fiscal year's audit plan they originated from.
- Audits not completed during the fiscal year, were not consistently carried over to the next fiscal year. For instance, in FY 2014-15, only 16 of 19 planned but not-started audits were carried over from the prior year's audit plan. For 2015-16, no audits were carried over, though

there were 3 audits that were planned but not-started from the prior year.

- Unclear and inconsistent documentation to justify changes to the approved plan (i.e. cancelled audits and/or new audits added to the Audit Plan).
- Key data such as, start and completed dates for each audit, was not recorded on the Assignment Tracking Sheets.

**Recommendations:** To increase the accuracy and reliability of the contractor risk assessment practices and the development of the audit plan, ACS should:

1. Ensure that the HHSA Contract Registry is filtered to include only active contracts during the fiscal year. To accomplish this, once the list of contracts is obtained from Cobblestone, identify and remove all expired contracts.
2. Update the HHSA Contract Registry to include the corporation type to ensure that contractor data may be appropriately sorted and filtered.
3. Review and update contract administration policies and procedures to ensure inclusion of sufficient and consistent language related to contractors not subject to audit, risk assessments of contractors, and contractors to be removed from Draft Audit Plans. This may consist of exclusion of contractors based on contract type, contract award amount, organizational type, etc.
4. Evaluate Policy HHSA-G-4-10 and ACS's Annual Risk Assessment criteria to determine whether existing elements could be enhanced, and/or new elements could be included, to further stratify the contractors by risk, and more accurately and consistently predict the risk contractors may present to the County. ACS should document the justification for including/excluding elements, such as:
  - Calculation of additional financial ratios, including solvency ratio
  - Materiality thresholds based on total contract value
  - Entity type
  - Criticality and complexity of services provided
  - Pre-award fiscal stability review results
5. Ensure that risk assessment procedures completed by staff are reviewed for accuracy, completeness, and proper support, including but not limited to:
  - Evidence that staff independently verified whether contractors are subject to a mandatory audit.
  - Documenting supervisory review and approval of the risk assessment.

6. Establish detailed procedures for the development of the Audit Plan. As a difference from contract administration policies, these procedures should clearly outline necessary steps to develop the Audit Plan including a threshold amount to exclude contracts from an audit based on the total value of the contract rather than annual award amount.
7. Quantify the significance of the risk posed by a contractor in order to assign the type of audit to be conducted (desk or full audit) and the timing of the audit by the risk score assigned.
8. Enhance the current methodology and related documents for planning and monitoring contractor audits to add clarity, effectiveness, and efficiency to the process. The revised methodology could include, but not be limited to:
  - Ensure that the audit plan includes the type of audit to be conducted for each contract, based on the assigned risk score.
  - Consistently carry-over audits of active contractors, not completed during the year, to the following year.
  - Clearly document carry over audits to identify the fiscal year's Audit Plan they originated from.
  - Maintain proper documentation to justify cancelled audits or new audits added during the year.

**Finding XIII:****Audit Plan Status Reporting Can Be Enhanced**

ACS produces and provides to OAAS quarterly reports on the status of its audit plans. OAAS conducted an evaluation of ACS reports provided during FY 2015-16 and the corresponding supporting documentation. OAAS found that the number of completed audits reported could not be substantiated with the supporting documentation reviewed.

In addition, while the ACS Audit Plan identifies the contractors subject to audit, it does not identify the scope of the audit. In some cases, the scope of the audit covers fiscal data and other information for multiple fiscal years. In these instances, ACS counts each fiscal year reviewed as a separate contract audit. As a result, the number of audits reported as completed is inflated and inconsistent with existing policy. Specifically, the following variances were noted:

**Table 9: Discrepancies in Audits Completed by ACS**

<b>Fiscal Year Audit Plan</b>	<b>Reported to OAAS as of June 30, 2016</b>	<b>Per OAAS Detail Review</b>
2013-14	52	36
2014-15	53	51
2015-16	28	27

The fact that ACS plans audits by contractor name, but reports audits completed by audit scope, causes confusion and additional complexity when tracking planned and completed audits.

As such, the scope of the contract audit should include a review of sufficient and relevant fiscal data and other information to ensure that the objective is met. If the scope of the audit requires reviewing data for more than one fiscal year, it should not result in reporting more than one contract audit as completed.

According to Generally Accepted Auditing Standards, the established scope of the audit must be sufficient to achieve the objectives of the engagement, and auditors must adequately plan the audit procedures necessary to address the audit objective.

**Recommendations:** To establish adequate internal controls and increase the effectiveness of the contract audit process, ACS should:

1. Ensure that the scope of the contract audit is in alignment with the objective of the audit.
2. Ensure that a clear audit trail exists between the audit plan and the number of audits reported as completed.

**Finding XIV: Internal Control Issues Noted on the Quality Assurance Review Process**

OAAS selected a judgmental sample of CORs by Region/Division and performed an evaluation of the timeliness and effectiveness of the QA review performed by ACS during FY 2015-16. OAAS obtained and reviewed one QA for each of the selected CORs. Of the 10 QA reviews, OAAS found:

- For two QA reviews, supporting documentation was missing. Specifically, ACS did not provide any documents for one review, and the other review was missing the engagement letter, final report, and close-out letter. OAAS could not evaluate the effectiveness and timeliness of the work performed.
- For three QA reviews, the QA tool was not completed. Also, for two of the tools, ACS staff handwrote over typed instructions for completing the tool. The handwriting was illegible. As a result, OAAS could not

determine the results of the review. According to ACS, they allow flexibility with respect to completing the QA tool by hand as opposed to utilizing the template on the computer.

- For one QA review, ACS did not communicate all exceptions found during the review to HHSA management. ACS identified three exceptions noted during the QA review. However, the QA report presented to the Region/Division did not list the exceptions noted and the corresponding corrective action. ACS indicated that in some instances potential concerns noted in the QA template are further researched and not reported to the Region/Division. However, ACS did not document that, based on a discussion with management, the exception would not be included in the Final Report.
- Seven QA reviews were not completed in a timely manner in accordance with ACS procedures. Specifically, five of the reviews were completed during the fiscal year, but beyond the 45 business days timeframe outlined in the QA Review Process. In two instances, the QA review started in March 2016 (FY 2015-16) and was completed in October 2016 (FY 2016-17).

HHSA Policy No. HHSA-G-4.15, ACS Quality Assurance Review of Region/Division Adherence to HHSA Contracting Policies states that ACS shall be responsible for conducting annual QA reviews of Region/Divisions.

Failure to perform complete and timely quality assurance reviews, and to properly document them, impacts ACS' ability to provide assurance to HHSA executive management that CORs are performing their duties in compliance with HHSA policies.

**Recommendations:** To increase the effectiveness of the QA function, ACS should strengthen the internal controls over the QA process. Specifically, ACS should:

1. Ensure that sufficient documentation for all QA reviews conducted is maintained and retained as support of the work conducted and the issues noted.
2. Ensure that QA reviews are completed within the stated timeframes in the fiscal year of the review, to assure that errors and deficiencies noted are communicated to the Region/Divisions in a timely manner.
3. Increase supervisory review and approval of the QA tool to ensure that information recorded is legible, clear, and sufficient, including but not limited to:
  - Indicating that issues were discussed with management, but not included as an exception in the Final Report.
  - Ensuring that supervisory review and approval is documented.



4. Provide refresher training to staff responsible for conducting QA reviews to ensure that they are aware of the QA documentation process; including maintaining sufficient, complete, and clear records.

## Office of Audits & Advisory Services

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C Compliance    R Reliability    E Effectiveness    A Accountability    T Transparency    E Efficiency

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VALUE

**DEPARTMENT'S RESPONSE**  
(COUNTY LIBRARY)



# County of San Diego

**MIGELL ACOSTA**  
LIBRARY DIRECTOR

COUNTY LIBRARY  
5560 OVERLAND AVENUE, SUITE 110, SAN DIEGO, CA 92123  
858-694-2415 Fax 858-495-5658  
www.sdcl.org

Date: 12/12/18

To: JUAN PEREZ  
CHIEF OF AUDITS

From: MIGELL ACOSTA, DIRECTOR  
COUNTY LIBRARY

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OFFICE OF AUDITS &  
ADVISORY SERVICES

## DEPARTMENT RESPONSE TO AUDIT RECOMMENDATIONS: COUNTYWIDE CONTRACT MANAGEMENT AUDIT

### **Finding I:** Improvements Needed to Ensure Completeness and Accuracy of Departmental Contract Lists

**OAAS Recommendation:** Library management should review their current contract list and ensure that the contract data is accurate and complete; including a complete list of contracts with the correct assigned COR, to improve the adequacy of the contract data maintained.

**Action Plan:** The Library agrees with the audit recommendations and will update its current contract monitoring report on a monthly basis. The Library is currently working with the divisions involved in revising the contract monitoring report. The updates will include columns that will list the Contract Officer's Representative (COR), expiration date, contract value, description, as well as any information necessary to maintain accuracy as well as adequacy.

**Planned Completion Date:** December 31, 2019

**Contact Information for Implementation:** Steven Alberto, AAI

### **Finding III:** COR Authority and Responsibilities Not Consistently Observed

**OAAS Recommendation:** To ensure CORs are aware of their roles, responsibilities, and authority limitations, the Library should review existing contracts, specifically the ones mentioned in this report, and ensure that current CORs have been formally designated as such, and DPC has been properly notified; and Ensure that designated CORs attend the Contracting Officer Representative (COR) Training offered by DPC.

**Action Plan:** The Library agrees with the audit recommendation. The Library is currently reviewing all its contracts and determining if the CORs listed are current and/or need to be assigned with other Library staff that is considered the most knowledgeable in that subject matter. The Library will initiate contract amendments to replace any CORs if necessary. The Library is currently assigning certain staff to attend DPC's COR training.

**Planned Completion Date: December 31, 2019**

**Contact Information for Implementation:** Steven Alberto, AAll

**Finding IV:** Designated COR Not Adequately Trained

**OAAS Recommendation:** To ensure that contracts are properly managed and monitored, the Library should identify current CORs that have not attended DPC COR Training to ensure that standardized contract administration training is obtained.

**Action Plan:** The Library agrees with the audit recommendation. The Library is currently assigning certain staff to attend DPC's COR training.

**Planned Completion Date: December 31, 2018**

**Contact Information for Implementation:** Steven Alberto, AAll

**Finding VI:** Internal Controls Over Contract Amendments Can Be Improved

**OAAS Recommendation:** To ensure that contract amendments are accurate and reliable, the Library should develop a process for CORs to conduct thorough reviews of contract amendments created by DPC to ensure appropriateness, completeness, and timeliness before the amendment is finalized. To avoid additional contract complexity and gaps in contractual documentation, the Library should evaluate Contract No. 501048 and determine whether incorporating the newest proposed amendments into an A&R Agreement is more appropriate.

**Action Plan:** The Library agrees with the audit recommendation. The Library will develop a guide on the contract amendment process that will aide staff to review all information contained in all documentation to ensure appropriateness, completeness, and timeliness before the amendment is finalized. The Library is currently evaluating contract No. 501048 to determine if services will need to be renewed, let expire, or a combination of both. Once determined, the Library will work with DPC to either solicit a new contract through competitive procurement or renew the services under a new contract via A-87 exemption/exception.

**Planned Completion Date: June 30, 2019**

**Contact Information for Implementation:** Steven Alberto, AAll

**Finding IX:** Contract Monitoring Practices Need Improvement

**OAAS Recommendation:** To ensure the proper ongoing administration and monitoring of contracts, the Library should formalize a process for developing a QASP or contract monitoring plan for each contract, outlining areas to be evaluated and the surveillance methodology to be used. Also, ensure that monitoring plans are updated, as necessary and approved by management; and ensure that contract monitoring activities are formally documented and maintained in the contract file as evidence that periodic reviews are conducted.

**Action Plan:** The Library agrees with the audit recommendation. The Library will develop a formalized process for developing a Quality Assurance Surveillance Plan (QASP) or Contract

Monitoring plan for each contract, outlining the areas to be evaluated and the surveillance methodology to be used.

**Planned Completion Date: December 31, 2019**

**Contact Information for Implementation: Steven Alberto, AAI**

If you have any questions, please contact me at 858-694-2389.

A handwritten signature in blue ink, appearing to read 'Migell Acosta', is positioned above the printed name and title.

Migell Acosta  
Director

**DEPARTMENT'S RESPONSE**  
(DEPARTMENT OF HUMAN RESOURCES)



# County of San Diego

**SUSAN BRAZEAU**  
DIRECTOR

DEPARTMENT OF HUMAN RESOURCES  
EXECUTIVE OFFICE  
1600 PACIFIC HIGHWAY, ROOM 203 SAN DIEGO, CA 92101-2463  
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DEC 11 2018

OFFICE OF AUDITS &  
ADVISORY SERVICES

December 7, 2018

TO: Juan R. Perez  
Chief of Audits

FROM: Susan M. Brazeau, Director *SB*  
Department of Human Resources

## DEPARTMENT RESPONSE TO AUDIT RECOMMENDATIONS: COUNTYWIDE CONTRACT MANAGEMENT AUDIT (A17-001)

### Finding V: Opportunities Exist to Improve Clarity When Drafting Contract Language

- **OAAS Recommendation 2:** Amend Contract No. 539507 and/or subsequent contract(s), including, but not limited to:
  - Update the price schedule to agree with the information included in the vendor's proposal and to clarify deliverables related to printing training materials.
  - Revise the contract billing requirements to ensure that sufficient support for mileage is obtained.

**Action Plan:** The Department of Human Resources (DHR) agrees with the recommendation to update the price schedule and billing requirements.

**Planned Completion Date:** June 30, 2019

**Contact Information for Implementation:** Elena Lepule at (858) 505-6375

- **OAAS Recommendation 3:** Amend Contract No. 551684 to correct the contract award amount.

**Action Plan:** The Department of Human Resources (DHR) agrees with this recommendation. An amendment (#3) was submitted and signed by DPC on June 20, 2017.

Juan Perez, Chief of Audits  
Response to Audit Recommendations (A17-001)  
December 7, 2018  
Page 2

**Completion Date:** June 20, 2017

**Contact Information for Implementation:** Elena Lepule (858) 505-6375

- **OAAS Recommendation 4:** Amend Contract No. 549644 including, but not limited to:
  - Revise the SOW to include specific deliverables for development of open enrollment communication tools.
  - If necessary, update the price schedule and contract award amount to include prices for development of electronic price comparison tools.

**Action Plan:** The Department of Human Resources (DHR) agrees with this recommendation. An amendment (#1) was submitted and signed by DPC on March 24, 2017.

**Completion Date:** March 24, 2017

**Contact Information for Implementation:** Elena Lepule (858) 505-6375

**Finding VII:** Internal Controls Over Payments to Contractors Can Be Improved

The Department of Human Resources (DHR) disagrees with Finding VII, particularly with the "Overcharges for Services" section. DHR had authority to approve the payment of an additional trainer.

- **OAAS Recommendation 1:** Establish a process that ensures invoices include adequate and complete supporting documentation before payment approval is processed. This documentation includes clear descriptions of services provided and detail support for mileage claim.

**Action Plan:** The Department of Human Resources (DHR) agrees with this recommendation and will review and update processes to ensure invoices are paid per contract.

**Planned Completion Date:** June 30, 2019

**Contact Information for Implementation:** Elena Lepule at (858) 505-6375

- **OAAS Recommendation 2:** Work with DPC to amend Contract No. 544660 including, but not limited to, updating the contract price schedule to amend the price of retesting of Peace Officer candidates.



Juan Perez, Chief of Audits  
Response to Audit Recommendations (A17-001)  
December 7, 2018  
Page 3

**Action Plan:** The Department of Human Resources (DHR) agrees with this recommendation. An amendment (#5) was submitted and signed by DPC on January 30, 2017.

**Completion Date:** January 30, 2017

**Contact Information for Implementation:** Elena Lepule at (858) 505-6375

- **OAAS Recommendation 3:** Work with DPC to amend Contract No. 549644 or subsequent contracts including update the price schedule and contract award amount to include prices for developing electronic price comparison tools.

**Action Plan:** The Department of Human Resources (DHR) agrees with this recommendation. An amendment (#1) was submitted and signed by DPC on March 24, 2017.

**Completion Date:** March 24, 2017

**Contact Information for Implementation:** Elena Lepule (858) 505-6375

- **OAAS Recommendation 4:** Ensure that the current CORs attend training for in-depth invoice review and DPC COR Training.

**Action Plan:** The Department of Human Resources (DHR) agrees with this recommendation. DHR CORs have/are attending training.

**Completion Date:** December 31, 2018 for COR Level I Training

**Contact Information for Implementation:** Elena Lepule (858) 505-6375

**Finding VIII:** Controls over Budgeting, Encumbrances, and Recording Contract Expenditures Can Be Improved

- **OAAS Recommendation 1:** Work with A&C to develop a process and time schedule for the proper recordation of revenues, and reduction of related encumbrances.

**Action Plan:** The Department of Human Resources (DHR) agrees with this recommendation and will continue to work with A&C to record revenues and related encumbrances.

Juan Perez, Chief of Audits  
Response to Audit Recommendations (A17-001)  
December 7, 2018  
Page 4

**Planned Completion Date:** June 30, 2019

**Contact Information for Implementation:** Elena Lepule (858) 505-6375

- **OAAS Recommendation 2:** Adjust the departmental budget and forecasts to decrease the general fund monies needed for the contract, and to account for the projected revenues and expenditures.

**Action Plan:** The Department of Human Resources (DHR) agrees with this recommendation and will adjust the departmental budget.

**Completion Date:** June 30, 2019

**Contact Information for Implementation:** Elena Lepule (858) 505-6375

Thank you for the opportunity to provide an Action Plan and Planned Completion Dates. If you have any questions, please contact Elena Lepule at (858) 505-6375.

SB:el

**DEPARTMENT'S RESPONSE**  
**(OFFICE OF EMERGENCY SERVICES)**



HOLLY CRAWFORD  
DIRECTOR

(858) 715-2201

FAX (858) 585-3499

# County of San Diego

Office of Emergency Services  
5580 Overland Ave, Suite 100, San Diego, CA 92123-1239

[www.sdcounty.ca.gov/oes](http://www.sdcounty.ca.gov/oes)

STEPHEN REA  
ASSISTANT DIRECTOR

(858) 715-2202

FAX (858) 585-3499

Date: 12/12/2018

RECEIVED

TO: Juan R. Perez  
Chief of Audits

DEC 12 2018

OFFICE OF AUDITS &  
ADVISORY SERVICES

FROM: Holly Crawford, Director  
Office of Emergency Services

## DEPARTMENT RESPONSE TO AUDIT RECOMMENDATIONS: COUNTYWIDE CONTRACT MANAGEMENT AUDIT

### Finding IV: Designated COR Not Adequately Trained

#### **OAAS Recommendation:**

To ensure that contracts are properly managed and monitored OES should:

1. Identify current CORs that have not attended DPC COR Training to ensure that standardized contract administration training is obtained.

**Action Plan:** OES agrees with the recommendation and have identified current CORs that have not attended DPC COR Training. Six (6) of the current CORs have completed the required DPC training and three (3) are scheduled to complete it by December 31, 2018.

**Planned Completion Date:** 12/31/2018

### Finding IX: Contract Monitoring Practices Need Improvement

#### **OAAS Recommendation:**

To ensure the proper ongoing administration and monitoring of contracts OES CFA should:

1. Formalize a process for developing a QASP or contract monitoring plan for each contract, outlining areas to be evaluated and the surveillance methodology to be used. Also, ensure that monitoring plans are updated, as necessary and approved by management.
2. Ensure that contract monitoring activities are formally documented and maintained in the contract file as evidence that periodic reviews are conducted.

**Action Plan:** OES agrees with the recommendations:

1. OES will develop contract monitoring plan for each contract, outlining areas to be evaluated and the monitoring methodology to be used. In addition, the

department will ensure that monitoring plans are updated, as necessary and approved by management.

2. OES will maintain documented contract monitoring activities in the contract files as evidence of periodic reviews.

**Planned Completion Date:** 04/30/2019

**Contact Information for Implementation:** Martin Kurian, Principal Administrative Analyst

If you have any questions, please contact me at (858) 715-2201.

  
ASSISTANT DIRECTOR  
FOR

Holly Crawford  
Director

**DEPARTMENT'S RESPONSE**  
(AIR POLLUTION CONTROL DISTRICT)

**Air Pollution Control Board**

Greg Cox	District 1
Dianne Jacob	District 2
Kristin Gaspar	District 3
Ron Roberts	District 4
Bill Horn	District 5

December 11, 2018

RECEIVED

To: Juan R. Perez  
Chief of Audits

DEC 12 2018

From: Robert J. Kard, Air Pollution Control Officer  
Air Pollution Control Department (APCD)

OFFICE OF AUDITS &  
ADVISORY SERVICES**Department Response to Audit Recommendations: Contract Management Audit****Finding II:** Insufficient Contracting Officer's Representative (COR) Assignment Guidance

**OAAS Recommendation:** To ensure adequate administration and oversight of contracts, the APCD should: (1) evaluate staff's skills and knowledge in technical, financial, and contract management before COR assignment and provide necessary training before COR designation; and (2) redistribute COR responsibilities for the grant reimbursement contracts to staff based on knowledge, expertise, and ability to manage contracts on an ongoing basis.

**Action Plan:** The APCD agrees with this recommendation and has completed a reevaluation and redistribution of its COR assignments accordingly. In November 2018, all current and proposed new CORs within the APCD completed training – provided by the County's Department of Purchasing and Contracting (DPC) – on COR roles and responsibilities. A corresponding request for COR designations has been completed and submitted to DPC for processing.

**Planned Completion Date:** Completed.

**Contact Information for Implementation:** Rob Reider, Deputy Director

**Finding IV:** Designated COR Not Adequately Trained

**OAAS Recommendation:** To ensure the grant reimbursement contracts are properly managed and monitored, the APCD should identify current CORs that have not attended DPC COR training to ensure that standardized contract administration training is obtained.

**Action Plan:** The APCD agrees with this recommendation. In November 2018, all current and proposed new CORs within the APCD completed DPC training on COR roles and responsibilities.

**Planned Completion Date:** Completed

**Contact Information for Implementation:** Rob Reider, Deputy Director

**Finding IX:** Contract Monitoring Practices Need Improvement

**OAAS Recommendation:** To improve management oversight of grant agreement project deliverables, APCD should: (1) develop a process for ensuring the annual status reports [documenting the grantee's annual usage of grant-funded vehicles and equipment] are obtained for grant agreement projects, including but not limited to, supervisory review, and required actions that should be taken in the event grantees do not comply with annual reporting requirements; and (2) review contract language, policies and procedures, and practices related to withholding funding until grantees comply with all reporting requirements to ensure documents align, and are clear, consistent, and attainable.

**Action Plan:** The APCD agrees with this recommendation. To enhance the oversight of grantee reporting, the APCD will assign a permanent Air Pollution Control Aide position to the grants program, whose responsibilities will include facilitating, tracking and verifying compliance with annual reporting, subject to review by the COR and program supervisor. When the APCD determines a grantee has failed to meet a reporting requirement, staff will work with the grantee to understand the reasons for this failure and, if warranted, establish a new limited timeframe for report submittal. Lacking satisfactory resolution of the issue, the COR will consult with his/her supervisor and management (and DPC and County Counsel as necessary) to determine the appropriate enforcement actions as authorized in the contract.

Additionally, the APCD has reviewed its contract language, policies and procedures, and practices related to withholding funds pending grantee reporting. Consistent with State guidelines, the contract language and policies and procedures authorize the APCD to withhold or recapture funds, conduct project inspections and monitoring, and/or suspend or terminate the contract for nonperformance with reporting or other requirements.

Notwithstanding this available enforcement tool, at this time the APCD does not withhold funds pending the completion of grantee reporting. This is because purchasing cleaner-than-required vehicles and equipment is very costly to the grantees and although the grant funds do not nearly cover their full cost, those funds are what motivate project proponents to opt-in for the cleaner equipment when they would not otherwise do so because of lack of affordability. Another consideration is the long reporting periods of projects, which extend up to 10 years. Any withholding of grant funds pending the completion of reporting may, in our experience, cause a project to not go forward or to be delayed until the proponent can acquire the funds from somewhere else. Even so, the authority to withhold grant funds will remain an available enforcement tool pursuant to State requirements.

**Planned Completion Date:** February 28, 2019 (estimated completion date for recruitment and hiring of an Air Pollution Control Aide to enhance the oversight of grantee reporting).

**Contact Information for Implementation:** Rob Reider, Deputy Director

If you have any questions, please contact me at (858) 586-2705.

Sincerely,

  
ROBERT J. KARD  
Air Pollution Control Officer



**DEPARTMENT'S RESPONSE**  
(HEALTH AND HUMAN SERVICES AGENCY)



## County of San Diego

**NICK MACCHIONE, FACHE**  
AGENCY DIRECTOR

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**DEAN ARABATZIS**  
CHIEF OPERATIONS OFFICER

December 12, 2018

RECEIVED

DEC 13 2018

OFFICE OF AUDITS &  
ADVISORY SERVICES

TO: Juan R. Perez, Chief of Audits  
Auditor and Controller

FROM: Nick Macchione, Agency Director  
Health and Human Services Agency

### DEPARTMENT RESPONSE TO AUDIT RECOMMENDATIONS: COUNTYWIDE CONTRACT MANAGEMENT AUDIT

#### **Finding X:** Contract Management and Monitoring Policy Improvements Needed

**OAAS Recommendation:** To increase the efficiency and effectiveness of contract administration and monitoring processes, ACS should:

1. Review contract administration policies and procedures to address issues noted, including but not limited to:
  - Incorporating relevant audit standards and guidelines applicable to all agencies subject to contract audit.
  - Adding clarity and consistency to outlined procedures.
  - Including key factors that identify contractors not eligible for an audit, before conducting a full risk assessment.
2. Evaluate frequency of contract audits required in the policy to ensure feasibility and alignment with ACS objectives and strategic planning.
3. Provide training to staff on updated contract administration and monitoring policies.

#### **Action Plan:**

HHS Agency Contract Support (ACS) agrees with the recommendations in Finding X and self-identified these same issues and had addressed, or were in the process of addressing, prior to commencement of the Countywide Contract Management Audit.

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1. Completed: HHSA Contract Support formally reviews ACS policies (approximately 40) and bulletins (currently 2) every two years. Additionally, as necessary updates are identified, policies may be updated mid-review cycle. The reference to OMB-122 had already been removed in the October 1, 2016 update to HHSA-G-4.11. The October 1, 2016 update also addressed the inconsistency between HHSA-G.4.10 and HHSA-G.4.11. Due to the audit scope being limited to FY 15/16, these updated policies, which corrected the identified issues, were available but not considered for the purposes of the audit.
2. Agree: ACS has completed contract audits of most high-risk contractors every three years, however, the large number of HHSA contractors does make a requirement of every contractor receiving a review every three years to be challenging. HHSA added two additional Contract Auditor positions in 2016 and a third in 2018. ACS will continue to consider additional factors during the contract audit plan process, so policies may be revised to reflect goals that are attainable.
3. Completed: HHSA has a formal program to provide training and new and updated contract administration and monitoring policies via the HHSA Contract Management Leadership Team, Contract Threading Group, annual updates of the QA Tool and Annual Update for audit staff.

**Planned Completion Date:** Completed; note: the identified issues are iterative processes which ACS will continue to review on an ongoing basis.

**Contact Information for Implementation:** Patty Danon, ACS Director or Amalia Arevalo, Principal Accountant

**Finding XI:** Opportunities Exist to Enhance Usability and Accuracy of Cobblestone

**OAAS Recommendation:**

1. Add a field within the Cobblestone database that captures the date of the last contract audit conducted.
2. Develop written procedures for conducting and reviewing evaluations of the data maintained in Cobblestone to identify and correct inaccurate or missing data in key fields; including, but not limited to: contract number, contract type, contract award amount, contract start date, and contract expiration date.
3. Analyze the identified data entry errors and develop appropriate data input controls to ensure that accurate and complete information is entered into Cobblestone.
4. Maintain the Cobblestone vendor ID field when extracting contract data and developing reports related to the contract audit plan.



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**Action Plan:**

1. Completed: ACS incorporated a field into CAMS (CobbleStone) database for Date of Last Contract Audit in March 2017.
2. Agree: As part of regular and ongoing reviews of the monthly reports the data in CAMS (CobbleStone) is evaluated and ACS staff is in process of finalizing written procedures.
3. Agree: As identified in the report, CAMS (CobbleStone) relies on data entry by all HHSA COR staff resulting in some data errors. ACS will investigate if CAMS allows for further data input controls and will continue to review the CAMS data monthly for accuracy and during ACS QA reviews and will make any needed corrections.
4. Disagree: CAMS (CobbleStone) already includes a vendor ID field; however, we do not agree that utilizing this field to create the audit reports or the QA lists adds value to the process or resolves concerns of potential errors.

**Planned Completion Date:** #2 will be completed by January 2019.

**Contact Information for Implementation:** Patty Danon, ACS Director and Paulina Martinez, Chief, Agency Operations.

**Finding XII:** Improve Contractor Risk Assessment and Audit Plan Processes

**OAAS Recommendation:** To increase the accuracy and reliability of the contractor risk assessment practices and the development of the audit plan, ACS should:

1. Ensure that the HHSA Contract Registry is filtered to include only active contracts during the fiscal year. To accomplish this, once the list of contracts is obtained from Cobblestone, identify and remove all expired contracts.
2. Update the HHSA Contract Registry to include the corporation type to ensure that contractor data may be appropriately sorted and filtered.
3. Review and update contract administration policies and procedures to ensure inclusion of sufficient and consistent language related to contractors not subject to audit, risk assessments of contractors, and contractors to be removed from Draft Audit Plans. This may consist of exclusion of contractors based on contract type, contract award amount, organizational type, etc.
4. Evaluate Policy HHSA-G-4-10 and ACS's Annual Risk Assessment criteria to determine whether existing elements could be enhanced, and/or new elements could be included, to further stratify the contractors by risk, and more accurately and consistently predict the risk contractors may present to the County. ACS should document the justification for including/excluding elements, such as:

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- calculation of additional financial ratios, including solvency ratio;
  - materiality thresholds based on total contract value;
  - entity type;
  - criticality and complexity of services provided;
  - and pre-award fiscal stability review results.
5. Ensure that risk assessment procedures completed by staff are reviewed for accuracy, completeness, and proper support. Also, ensure that supervisory review and approval is documented.
- Evidence that staff independently verified whether contractors were subject to a mandatory audit.
  - Documenting supervisory review and approval of the risk assessment.
6. Establish detail procedures for the development of the Audit Plan. As a difference from contract administration policies, these procedures should clearly outline necessary steps to develop the Audit Plan including a threshold amount to exclude contracts from an audit based on the total value of the contract rather than annual award amount.
- B** 7. Quantify the significance of the risk posed by a contractor in order to assign the type of audit to be conducted (desk or full audit) and the timing of the audit by the risk score assigned.
- C** 8. Enhance the current methodology and related documents for planning and monitoring contractor audits to add clarity, effectiveness, and efficiency to the process. The revised methodology could include, but not be limited to:
- Ensure that the audit plan includes the type of audit to be conducted for each contract, based on the assigned risk score.
  - Consistently carry-over audits of active contractors, not completed during the year, to the following year.
  - Clearly document carry over audits to identify the fiscal year's Audit Plan they originated from.
  - Maintain proper documentation to justify cancelled audits or new audits added during the year.

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**Action Plan:**

1. Completed: This process is already incorporated into the ACS annual risk assessment, ACS determines if contracts expired or were given a new contract number and expired contracts are excluded from the risk assessment.
2. Completed: At the time of the audit, Cobblestone did include fields to identity for/non-profit and after OAAS fieldwork conversations, ACS added additional types to provide more detail. The standard Contract Registry report does not include these fields, but reports can be run to include as needed.
3. Completed: Policies G-4.10 and G-4.11 were updated again on June 1, 2018.
4. Disagree: ACS has reviewed the factors that are used to assess risk and has determined that the current risk factors satisfactorily identify priorities for ACS audit plan. ACS finds that no changes are necessary at this time.
5. Partially agree:
  - Disagree: To utilize staff time most efficiently, ACS adopts a conservative approach and rather than independently researching contractors' Single Audit requirements, assigns the higher risk score to contractors that have not provided or responded to inquiries.
  - Completed: Although risk assessment procedures completed by staff have always been reviewed and approved for accuracy, completeness, and proper support, ACS updated procedures and effective FY17/18 documentation of supervisory review and approval are included.
6. Agree: Commencing with the FY18/19 ACS Risk Assessment, detailed procedures for the development of the Audit Plan will be outlined and maintained per ACS records retention policy.
7. Partially agree: Risk score is one factor used to determine the type of audit to be conducted. Additional items utilized are:
  - prior contract audit issues;
  - no significant concerns from regions/divisions that have not been addressed;
  - concerns that have been identified by regions/divisions or management;
  - and feasibility of reviewing required documentation electronically.

Commencing with the FY 2018/19 ACS Audit Plan, ACS will indicate why the audit type changed from a full or desk if it does not seem to align with the risk score.



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8. Disagree: ACS has reviewed the current methodology and related documents for planning and monitoring contractor audits and has determined that the current process adequately addresses those areas identified by the OAAS audit.

As described to OAAS during fieldwork, the annual contract audit plan is developed without assigning audit types to each contractor at the beginning of the fiscal year. The specific audit type is tentatively determined on a quarterly basis as audits enter the planning stage, and may change as the engagement begins, typically from desk to a full audit.

In addition, audits not completed during the year are consistently carried over to the following year and identified by the fiscal year's Audit Plan they originated from. Documentation supporting this was provided to OAAS throughout the audit. Additionally, this data is reported to OAAS on a quarterly basis.

**Planned Completion Date:** FY18/19 Risk Assessment/Audit Plan development cycle for #6 and #7

**Contact Information for Implementation:** Patty Danon, ACS Director or Amalia Arevalo, Principal Accountant.

**Finding XIII:** Audit Plan Status Reporting Can Be Enhanced

**OAAS Recommendation:** To establish adequate internal controls and increase the effectiveness of the contract audit process, ACS should:

1. Ensure that the scope of the contract audit is in alignment with the objective of the audit.
2. Ensure that a clear audit trail exists between the audit plan and the number of audits reported as completed.

**Action Plan:**

Partially agree: HHSA Regions/Divisions are responsible for developing and implementing procedures to ensure monitoring of contracts in alignment with overall County policies and other funding source requirements. As detailed in the HHSA policies reviewed by OAAS, ACS is responsible for assessing contractor risk annually, and conducting contract audits as an additional level of assurance. ACS contract audits include a review of contractor records and are performed in accordance with the contract terms and conditions and OMB cost principles, for select contractors. HHSA has developed internal policies and procedures for the contract management and oversight function. These policies describe specific activities for contract audits.

1. Disagree: While a typical audit shop has a variety of different audit types, resulting in the need for specific scope/objective development per audit, the scope and objective of ACS contract audits is to ensure that expenses claimed during a particular fiscal year are

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reasonable, allowable, allocable, and properly supported by documentation. As part of the contract audit, we may determine if the contractor is fiscally stable and able to continue providing services as outlined in the County contract.

2. Agree: ACS and HHSA management has reviewed and is confident in the transparency and adequacy of the audit trail linking audit plan to number of audits reported as completed and/or carried over to following years.

**Planned Completion Date:** Completed

**Contact Information for Implementation:** Patty Danon, ACS Director or Amalia Arevalo, Principal Accountant

**Finding XIV:** Internal Control Issues Noted on the Quality Assurance Review Process

**OAAS Recommendation:**

1. Ensure that sufficient documentation for all QA Reviews conducted is maintained and retained as support of the work conducted and the issues noted.
2. Ensure that QA Reviews are completed within the stated timeframes in the fiscal year of the review, to assure that errors and deficiencies noted are communicated to the Region/Divisions in a timely manner.
3. Increase supervisory review and approval of the QA Tool to ensure that information recorded is legible, clear, and sufficient, including but not limited to:
  - a. Indicating that issues were discussed with management, but not included as an exception in the Final Report.
  - b. Ensuring that supervisory review and approval is documented.
4. Provide refresher training to staff responsible for conducting QA Reviews to ensure that they are aware of the QA documentation process; including maintaining sufficient, complete, and clear records.

**Action Plan:**

1. Agree: ACS staff developed written procedures effective FY17/18 on how the QA reviews should be conducted, maintained and retained.
2. Agree: ACS has a QA schedule. The reviews are initiated during the fiscal year and are completed during the fiscal year or shortly thereafter, based upon complexity, Region/Division operational needs, and COR as well as ACS staff availability.




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3. Agree: The ACS QA written procedures are being followed by the QA staff. The ACS staff are documenting their reviews and approvals.
4. Agree: On an annual basis, the ACS Chief, Principal Administrative Analyst, and QA Supervisor reviews the QA Tool as well as expectations contained within the QA Procedures Desk Guide with the ACS QA staff before the QA Reviews begin. Additionally, the QA supervisor trains the staff at the beginning of each QA Review on the specifics of the Region/Division and their applicable requirements.

**Planned Completion Date:** Completed

**Contact Information for Implementation:** Patty Danon, ACS Director and Paulina Martinez, Chief, Agency Operations.

If you have any questions, please call (858) 636-3530



NICK MACCHIONE, Agency Director  
Health and Human Services Agency

cc: Tracy M. Sandoval, Deputy Chief Administrative Officer/Auditor and Controller  
Andrew Pease, Executive Finance Director, Health and Human Services Agency  
Dean Arabatzis, Chief Operations Officer, Health and Human Services Agency  
Patty Danon, Director, Agency Contract Support, Health and Human Services Agency

**DEPARTMENT'S RESPONSE**  
(DEPARTMENT OF PURCHASING AND CONTRACTING)



# County of San Diego

**JOHN M. PELLEGRINO**  
DIRECTOR

DEPARTMENT OF PURCHASING AND CONTRACTING  
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**ALLEN R. HUNSBERGER**  
ASSISTANT DIRECTOR

December 14, 2018

RECEIVED

TO: Juan R. Perez  
Chief of Audits

**DEC 14 2018**

FROM: John M. Pellegrino, CPCM, Director  
Department of Purchasing and Contracting

OFFICE OF AUDITS &  
ADVISORY SERVICES

## DEPARTMENT RESPONSE TO AUDIT RECOMMENDATIONS: COUNTYWIDE CONTRACT MANAGEMENT AUDIT

### **Finding I:**

Improvements Needed to Ensure Completeness and Accuracy of Departmental Contract Lists

### **OAAS Recommendation 1:**

DPC should provide County departments with standardized requirements for specific information to be included in the contract list. Such information should include, but not be limited to, contract number, effective dates, award amounts, contract type, and the assigned COR.

### **Action Plan:**

Although contract information described in the report has been available to the departments in Oracle reporting, DPC has begun providing departments with customized consolidated listings of active contracts. The fields noted in this audit report are included in these listings. DPC will continue to provide consolidated reports to Departments at least quarterly, or at more frequent times as may be requested by Departments, and will publish updated guidance on how departments can create these consolidated contract lists. As noted in the Audit Report Background, DPC has initiated a procurement to acquire and implement a County-Wide Contract Lifecycle Management System (CLMS). When implemented, CLMS will allow for additional functionality for the standardization of contract information across the enterprise, including real-time access to information by Departments.

### **Planned Completion Date:**

On-going; Additional reporting guidance published by January 2019

### **Contact Information for Implementation:**

Melanie Caramat, Chief, Departmental Operations

### **Finding II:**

Insufficient COR Assignment Guidance

### **OAAS Recommendation 1:**

Develop and publish standard procedures and/or supplemental information related to necessary competencies, such as technical knowledge, expertise, and ability to manage contracts on an ongoing basis.

## Department Response to Audit Recommendations: Countywide Contract Management Audit

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**Action Plan:**

DPC has established CoSD COR Training Requirements (Certification Training Requirements for staff appointed by Department Heads as CORs) dated September 24, 2018 which outlines the necessary competencies, technical knowledge, expertise, and mandatory training for all appointed CORs. These training requirements, as well as, a Procurement Overview and Responsibilities briefing for Department Heads and Executives has been presented beginning in October 2018. Additionally, DPC will update its procurement policies to include these new training requirements; and will coordinate with Department Heads to ensure that assigned CORs meet these requirements as well as provide additional executive overview presentations on a regular basis and as requested.

**Planned Completion Date:** On-going and DPC policies updated by March 2019

**Contact Information for Implementation:**

John Pellegrino, CPCM, Director, Purchasing and Contracting

**Finding IV:**

Designated COR Not Adequately Trained

**OAAS Recommendation 1:**

Implement a mandatory contract administration training program for CORs.

**Action Plan:**

Beginning in October 2018, DPC has begun implementing mandatory COR training for all County CORs, which supplements Contract Administration training previously provided by Agency Contract Support (ACS) for Health and Human Services Agency contracts; and COR training sessions previously offered by DPC as part of its DPC Procurement Academy. Going forward all CORs will be designated as either a COR I or COR II depending on contract complexity and risk.

Department Heads are responsible to appoint and classify CORs as COR I or COR II based upon risk factors associated with the contract including contract type and contract value. Contracts over \$500,000 in value or using a cost reimbursement contract type will require training to the COR II standards, including achievement of required CoSD Continuing Education Credits. Additionally, Department Heads may require COR II training for any contract based upon contract operational risk.

Depending upon the Department Head's appointment, CORs will be trained to a COR I or COR II standard training requirements. COR training will consist of initial training of 8 hours training for COR I; or 16 hours of training for COR II. Additionally, every two years from the date of this initial training, CORs are required to participate in an additional 48 hours for COR I; or 68 hours for COR II (an 8-hour COR Refresh session; and additional continuing education training hours – CoSD education credits).

Department Heads may require additional training and/or experience as they determine necessary. DPC will provide on-going guidance to Departments to aid in implementing and overseeing these COR requirements.

Department Response to Audit Recommendations: Countywide Contract Management Audit  
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Presentation of COR I trainings began on October 17, 2018 and it is planned that the majority of currently designed CORs will complete COR I sessions by the end of the calendar year. The COR II required sessions will begin in January 2019 and multiple sessions offered in early 2019. As of the date of this response (12 December 2018) 364 staff have attended COR I sessions. COR II sessions will begin in January 2019, and multiple COR I and II sessions will be hosted each month. DPC plans to have all active CORs fully trained by May 2019.

**Planned Completion Date:**

On-going; all assigned COR I trained by January 2019; COR II by May 2019

**Contact Information for Implementation:**

John Pellegrino, CPCM, Director, Purchasing and Contracting

**Finding V:**

Opportunities Exist to Improve Clarity When Drafting Contract Language

**OAAS Recommendation 1:**

Incorporate steps into its existing process to review for consistency and accuracy of contract language and contract award contained in the contractual documents and subsequent exhibits, including the vendor's proposal.

**Action Plan:**

DPC will provide additional guidance via DPC Contract Bulletin(s) reinforcing that contract exhibits must be checked for consistency, and that order of precedence clauses must be included and analyzed where needed to promote contract consistency. Proposal exhibits must be carefully considered before inclusion in the contract, particularly where the same or similar exhibits are already included elsewhere in the contract.

**Planned Completion Date:**

Issuance of DPC Contract Guidance Bulletin(s) by January 2019

**Contact Information for Implementation:**

Allen Hunsberger, Assistant Director, Purchasing and Contracting

**Finding VI:**

Internal Controls Over Contract Amendments Can Be Improved

**OAAS Recommendation 1:**

Develop standardized procedures for the development of contract amendments aimed to educate CORs and DPC staff to enhance consistency of the process. Procedures should include, but not be limited to:

- CORs' responsibilities in the contract modification process. Including a thorough review of terms listed in contract amendments; such as description of change, effective dates, and pricing. Importance of maintaining complete contract files, including contract amendments.
- Guidance to CORs to determine whether additional contract amendments are necessary, or whether it is more efficient to amend and restate the agreement (A&R Agreement).

## Department Response to Audit Recommendations: Countywide Contract Management Audit

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- Ensure that subsequent contract amendments and other relevant records refer to previous contract numbers used.
- Conducting a thorough review of amendments before they are finalized to ensure sequential numbering and avoid duplicates.

**Action Plan:**

DPC will develop expanded guidance on the issuance of amendments, which will include all listed topics. The guidance will be provided to both Contracting Officers and CORs.

While DPC agrees with the recommendation, DPC makes the following clarifications regarding two sections of this finding:

- Adding Services Outside the Scope of Work of the Original Contract** – This finding states services outside the initial scope were added to contracts via amendment. When necessary during contract performance, changing the scope of a contract via amendment is the appropriate contract format to do so.
- Backdating Contract Amendments** – This finding claims that 19 contract amendments were found to be backdated. In none of these cases was the amendment dated prior to the actual signature date.

**Planned Completion Date:**

Issuance of DPC Contract Guidance Bulletin(s) by January 2019

**Contact Information for Implementation:**

Allen Hunsberger, Assistant Director, Purchasing and Contracting

If you have any questions, please contact me at 858-505-6565, or Allen Hunsberger, Assistant Director, at 858-505-6362.



JOHN M. PELLEGRINO, CPCM

Director

Department of Purchasing and Contracting

JMP:mh

cc: April Heinze, Deputy Chief Administrative Officer, Community Services Group  
Tracy M. Sandoval, Deputy Chief Administrative Officer/Auditor and Controller  
Brian Hagerty, Group Finance Director, Community Services Group  
Allen Hunsberger, Assistant Director, Department of Purchasing and Contracting

**DEPARTMENT'S RESPONSE**  
(COUNTY FIRE AUTHORITY)





## SAN DIEGO COUNTY FIRE

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**TONY MECHAM**  
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(619) 590-3100

**HERMAN REDDICK**  
DIRECTOR  
(858) 974-5999

Date: 12/13/2018

TO: Juan R. Perez  
Chief of Audits

FROM: Herman Reddick, Director  
San Diego County Fire Authority

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DEC 13 2018

OFFICE OF AUDITS &  
ADVISORY SERVICES

### DEPARTMENT RESPONSE TO AUDIT RECOMMENDATIONS: COUNTYWIDE CONTRACT MANAGEMENT AUDIT

#### **Finding III:** COR Authority and Responsibilities Not Consistently Observed

**OAAS Recommendation:** To ensure CORs are aware of their roles, responsibilities, and authority limitations, the CFA should:

1. Review existing contracts, specifically the ones mentioned in this report, and ensure that current CORs have been formally designated as such, and DPC has been properly notified.
2. Ensure that designated CORs attend the Contracting Officer Representative (COR) Training offered by DPC (refer to Finding IV, Recommendation 2).

**Action Plan:** CFA agrees with the recommendations and have taken following actions to address the findings.

1. The Department has reviewed all existing contracts and has completed amendments except for one contract through DPC to designate appropriate CORs.

**Completion Date:** January 31, 2019

2. All current CORs attend the training offered by DPC.

**Completion Date:** As of December 10, 2018, 3 of 5 CORs completed the training. The December class is already full so the remaining 2 are scheduled for January 2019.

**Contact Information for Implementation:** Martin Kurian, Principal Administrative Analyst  
Myra Colon, Associate Accountant



**Finding IV:** Designated COR Not Adequately Trained**OAAS Recommendation:**

To ensure that contracts are properly managed and monitored, CFA should:

1. Identify current CORs that have not attended DPC COR Training to ensure that standardized contract administration training is obtained.

**Action Plan:** CFA agrees with the recommendation and have identified current CORs that have not attended DPC COR Training. Current CORs are scheduled to complete the required DPC training by January 2019.

**Completion Date:** As of December 10, 2018, 3 of 5 CORs completed the COR training. The December class is already full so the remaining 2 are scheduled for January 2019.

**Contact Information for Implementation:** Martin Kurian, Principal Administrative Analyst  
Myra Colon, Associate Accountant

**Finding VI:** Internal Controls over Contract amendments can be improved.**OAAS Recommendation:**

To ensure that contract amendments are accurate and reliable, CFA should:

1. Develop a process for CORs to conduct thorough reviews of contract amendments created by DPC to ensure appropriateness, completeness, and timeliness before the amendment is finalized.

**Action Plan:** The Department agrees with the recommendation and will develop a process for CORs to ensure appropriateness, completeness, and timeliness before any amendment is finalized. A thorough review of future amendments shall be completed by the COR to ensure sequential numbering.

**Completion Date:** March 31, 2019

**Contact Information for Implementation:** Martin Kurian, Principal Administrative Analyst  
Myra Colon, Associate Accountant

**Finding VII:** Internal Controls over payments to contractors can be improved.**OAAS Recommendation:**

To establish adequate internal controls over contract invoice processing and payment approval, the CFA should:

1. (Rec #5) Ensure that the current CORs attend training for in-depth invoice review.
2. (Rec #6) Develop an in-depth invoice review process to ensure that expenses claimed are accurate, including but not limited to:
  - Ensure that adequate and complete supporting documentation is provided and retained in the contract file.
  - Descriptions of benefit rates and services on vendor invoices align with the services listed on the contract price schedule.
3. (Rec #7) For Contract No. 545864, work with DPC to update the contract to reflect the current and actual rates charged, positions utilized, and actual operational budgets.
4. (Rec #8) For Contract No. 530235, request and review missing supporting documentation to ensure that time billed is accurate.

**Action Plan:** CFA agrees with the recommendations. Although there is a process in place in completing in-depth reviews of invoices, this is not documented and can be improved.

1. (Rec #5) CFA will ensure that CORs attend a training on in-depth invoice review.

**Completion Date:** December 31, 2019

2. (Rec #6) CFA developed an in-depth invoice review process to ensure that expenses claimed are accurate and will review and retain all relevant supporting documents pertaining to the claim. In addition, the department will provide DPC updated benefit rates as provided by Cal Fire.

**Completion Date:** Completed (December 2017)

3. (Rec #7) CFA is working with DPC to update Contract No. 545864 to reflect the current and actual rates charged, positions utilized, and actual operational budgets.

**Completion Date:** February 28, 2019

4. (Rec #8) This recommendation no longer applies. As of December 31, 2017, the contract with the Julian Cuyamaca Fire Department, Contract No. 530235 was terminated. In all current and future contracts, supporting documentation are/will be requested and reviewed to ensure accuracy.

**Completion Date:** Completed and ongoing

**Contact Information for Implementation:** Martin Kurian, Principal Administrative Analyst  
Myra Colon, Associate Accountant

**Finding IX:** Contract Monitoring Practices Need Improvement

**OAAS Recommendation:**

To ensure the proper ongoing administration and monitoring of contracts, CFA should:

1. Formalize a process for developing a QASP or contract monitoring plan for each contract, outlining areas to be evaluated and the surveillance methodology to be used. Also, ensure that monitoring plans are updated, as necessary and approved by management.
2. Ensure that contract monitoring activities are formally documented and maintained in the contract file as evidence that periodic reviews are conducted.

To improve management oversight of contract expenditures and contract performance, CFA should:

3. Establish internal control procedures over expense reimbursement, including but not limited to:
  - Develop a process to monitor and reconcile budget expenditures to actuals expenditures.
  - Obtain contractor justification for claimed expenses not explicitly listed in the contract schedule or exceeding the annual budget amount.
4. Develop a plan to conduct periodic on-site monitoring of the fire stations, including conducting periodic physical inventories and maintaining a list of operating equipment purchased under the contract.

**Action Plan:** CFA agrees with the recommendations:

1. CFA currently performs desk review of invoices; request 10% random samples of timesheets and requires 100% supporting documentations for all other expenditures.  
CFA will continue to develop contract monitoring plans for each contract, outlining areas to be evaluated and the monitoring methodology to be used. In addition, the department will ensure that monitoring plans are updated, as necessary and approved by management.

**Completion Date:** July 1, 2019

2. All contract monitoring activities are formally documented and maintained in the contract files.

**Completion Date:** July 1, 2019

In order to improve management oversight of contract expenditures and contract performance;

3. CFA directly purchases majority of the items needed for County fire operations and items purchased by CalFire require prior approval. CFA has implemented a Procurement Request process which requires prior approval for expenditures. CFA started logging all procurement requests and

reconciles them by expenditure type/category to avoid overspending. In addition, justifications are required for expenses that are not listed in contract schedule or exceeding the annual budgeted amount for operating expenses. This Procurement Request process assists in reconciling budgeted operating expenditures to actual expenditures

**Completion Date:** July 1, 2017

4. In addition, the Department to conduct periodic on-site monitoring of the fire stations, including conducting periodic physical inventories and maintaining a list of operating equipment purchased under the contract. CFA also developed a policy on September 1, 2018 "Control of Capital Assets and Minor Equipment" and is finalizing the procedures for the training scheduled to roll out by Spring 2019.

**Completion Date:** July 1, 2019

**Contact Information for Implementation:** Martin Kurian, Principal Administrative Analyst  
Myra Colon, Associate Accountant

If you have any questions, please contact me at (858) 974-5813.



Herman Reddick  
Director

**OFFICE OF AUDITS & ADVISORY SERVICES  
CLARIFICATIONS TO DEPARTMENT RESPONSE**

**Office of Audits & Advisory Services  
Countywide Contract Management (A17-001)  
Clarifications to Department Response**

**Health and Human Services Agency**

- A** **Finding XI – Recommendation 4:** The recommendation to use the vendor ID when developing the documents listed in the contract audit process (illustrated on page 26) is based on established internal control best practices for maintaining data integrity and reducing the risk of errors and redundancy, and also based on audit work performed to reconcile the various reports used by ACS, which would have been expedited if the vendor ID was utilized.
- B** **Finding XII – Recommendation 7:** Some of the items listed by ACS, in addition to the risk score, to determine the type of audit to be conducted such as results of prior contract audits and concerns from the regions/divisions or management, are in fact included in the method for calculation of the risk score and were considered by OAAS when issuing the recommendation. To clarify our recommendation, OAAS recommends that ACS document the range of risk scores that correspond to the low, medium, or high probability of a risk event occurring with the contractor. HHSA policy requires that ACS assign a desk audit to contractors with low and medium risk scores, and a full audit to contractors with high risk scores.
- C** **Finding XII – Recommendation 8:** OAAS stands by our finding and recommendation related to the methodology and documentation for planning and monitoring contractor audits. OAAS acknowledges that ACS provided the requested documentation during fieldwork. However, ACS did not adequately justify inconsistencies and inaccuracies found throughout the data. Similarly, the information provided by ACS did not explain why the methodologies and processes used did not adhere to HHSA policy.
- D** **Finding XIII – Recommendation 1:** Per ACS, the objective of ACS contract audits is to ensure that expenses claimed during a particular fiscal year are reasonable, allowable, allocable, and properly supported by documentation. In cases when ACS conducts such reviews for more than one fiscal year per contractor ACS should document the expansion of the audit scope in the audit plan and report the completion of just one contract audit for that contractor.