

OFFICE OF AUDITS & ADVISORY SERVICES

ALARM CENTER CONTRACT ADMINISTRATION

FINAL REPORT



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JUAN R. PEREZ
CHIEF OF AUDITS

September 2, 2025

TO: Marko Medved, Director
Department of General Services

FROM: Juan R. Perez
Chief of Audits

FINAL REPORT: ALARM CENTER CONTRACT ADMINISTRATION AUDIT

Enclosed is our report on the Alarm Center Contract Administration 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.

JUAN R. PEREZ
Chief of Audits

AUD:WA:nb

Enclosure

c: Brian Albright, Deputy Chief Administrative Officer, Finance and General Government Group
Carrie Hoff, Chief Operations Office, Finance and General Government Group
Joan Bracci, Chief Financial Officer, Finance and General Government Group
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About the Office of Audits & Advisory Services

The mission of the Auditor and Controller's Office of Audits & Advisory Services (OAAS) is to provide independent, objective assurance and consulting services designed to add value and improve the County of San Diego's operations. OAAS helps the County accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Audit Authority

OAAS derives its authority to conduct audits of County departments and programs primarily from the County Charter, County Administrative Code, Board of Supervisors Policy Manual, and California Government Code.

Statement of Auditing Standards

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.



AUDIT OBJECTIVE & SCOPE

The Office of Audits & Advisory Services (OAAS) completed an audit of Alarm Center Contract Administration. The objective of the audit was to evaluate the adequacy and effectiveness of contract administration for the third-party vendor, Alarm Center.

The audit evaluated the Department of General Services' (DGS) administration of Contract No. 561191 with Alarm Center Group, Inc., focusing on compliance with pricing terms, invoice approvals, conflict-of-interest controls, and overall contract oversight. To assess recurring issues and long-term compliance, the review also included prior contracts (543523-543526 and 558348), covering activity from 2017 through early 2025. Emphasis was placed on transactions after September 11, 2024, when DGS implemented revised invoice review procedures. The scope also included validation of Contracting Officer's Representative (COR) assignments, training, disclosures, and efforts to ensure accurate payments and effective monitoring.

AUDIT RESULTS

Within the scope of this audit, the Office of Audits & Advisory Services (OAAS) identified several opportunities for the DGS to enhance its administration of the Alarm Center contract. The review focused on contract compliance, pricing enforcement, oversight responsibilities, and invoice review practices. While recent improvements have strengthened certain processes, the audit revealed areas where additional refinement can further increase accountability, reduce risk, and support more effective contract management. The following findings are intended to guide continuous improvement and support DGS in achieving greater operational and fiscal oversight.

Finding I: Opportunities to Strengthen Contract Monitoring and Oversight Practices

The Alarm Center contract lacked formal oversight and documentation. The assigned COR confirmed that no written contract monitoring plan was in place, and no records of oversight activities – such as service verification, contractor performance tracking, or invoice review procedures – were maintained.

The COR also indicated that invoice approvals were based solely on the associated Material/Task Orders (MTOs) rather than validated against the contract's fixed pricing schedule – reflecting a critical gap in understanding key contract terms.

The absence of a structured monitoring approach, along with the COR's limited knowledge of contract requirements, suggests that DGS has not implemented sufficient internal controls to support or verify proper contract administration. Without documented oversight or service verification procedures, the County remains vulnerable to unauthorized payments, unverified service delivery, and increased financial and reputational risks. The lack of documentation also impedes auditability and weakens accountability.

Multiple governance documents outline the County's expectations for contract oversight. Under Section C.40 of Contract 561191, the COR is assigned responsibility for approving invoices,

auditing records, and verifying contractor services. Similarly, Contract 558348 (Article 1.2 and Exhibit A, Section 1.15) mandates that services must be verified with supporting reports before payment is released. These requirements are reinforced by Board Policy A-81 and the Department of Procurement and Contracting (DPC) Procurement Manual, both of which emphasize the importance of ongoing performance monitoring, documentation, and adherence to pricing and scope.

RECOMMENDATION:

To ensure effective contract administration and prevent future noncompliance, the following recommendations are proposed to enhance monitoring protocols and internal oversight:

1. **Ensure COR Compliance with DPC Training Requirements:** DGS should ensure that all CORs comply with DPC training requirements, including the use of contract monitoring plans, enforcement of price schedules, invoice verification, and proper documentation practices.
2. **Implement Written Monitoring Plans:** Each active contract should be supported by a written contract monitoring plan that outlines specific oversight tasks, review frequency, and documentation expectations.
3. **Conduct Periodic Oversight Reviews:** DGS management should periodically review contract files and COR activities to ensure monitoring duties are being properly carried out and documented in accordance with County policy and contract terms.

Finding II:

Opportunity to Strengthen Conflict of Interest Oversight

Two current DGS employees responsible for reviewing invoices under the Alarm Center contract were previously employed by the vendor. One now serves as the COR, directly responsible for contract oversight and invoice approvals. The second individual, a supervisor, assists in reviewing invoices submitted by his team, although he does not hold overall monitoring responsibility.

While both employees disclosed their prior vendor employment through standard onboarding documentation (e.g., résumés or attestations), these prior affiliations were not evaluated as part of a formal conflict of interest review. DGS currently relies solely on the AUD263 disclosure form to identify ongoing outside employment or financial interests with vendors and does not assess prior employment when making contract oversight assignments.

This procedural gap has resulted in the assignment of individuals with vendor ties to positions of oversight without risk evaluation or mitigation. Although prior employment does not automatically create a disqualifying conflict, the absence of review increases reputational and operational risks – particularly given Alarm Center’s recent pricing discrepancies and long-standing relationship with the County.

California Government Code §87100 prohibits public officials from participating in decisions where they hold a material financial interest, and while prior employment is not necessarily disqualifying, the statute supports recusal where impartiality might reasonably be questioned. Government Code §§1090 and 1126 reinforce this principle by emphasizing the importance of avoiding not only actual conflicts but also the appearance of bias.

Additionally, the Government Accountability Office (GAO) Green Book, Committee of Sponsoring Organizations of the Treadway Commission (COSO) Framework, and best practices from organizations such as the National Institute of Governmental Purchasing (NIGP) and the National Association of State Procurement Officials (NASPO) advise evaluating both current and prior vendor relationships when assigning roles involving procurement or financial authority. Without such assessments, the County risks eroding stakeholder trust and impairing its procurement integrity.

RECOMMENDATION:

Enhance Conflict of Interest Review Procedures to Include Prior Vendor Relationships:

DGS should strengthen its conflict-of-interest procedures by incorporating prior vendor employment into its risk assessments when assigning staff to roles involving procurement, invoice approval, or contract oversight. This should include developing a formal review process to evaluate whether prior employment presents an actual or perceived conflict and implementing mitigation strategies – such as reassignment, supervisory checks, or documentation of impartiality – where appropriate.

Finding III: Opportunity to Improve Pricing Verification and Invoice Review Controls

A review of 64 invoices under the current Alarm Center contract (Contract No. 561191) identified significant weaknesses in pricing enforcement and invoice validation controls. Specifically,

Noncompliance with Contract Pricing Terms – Of the 64 invoices reviewed, 20 (31%) contained items listed on the contract price schedule. None were billed in accordance with the agreed-upon pricing, resulting in overcharges totaling \$1,905.81, or 3.1% of the total invoice sample amount (\$61,825.70). Notably, 100% of the sampled contract-priced items were overbilled.

To assess the extent and persistence of non-compliance with contract pricing terms, OAAS expanded the invoice review to include historical contracts. A random sample of 10% of invoices was selected from the initial two years of Contracts 561191 and 558348, and from the final two years of Contracts 543523-543526, covering 2017 through 2020.

- For Contracts 543523-543526: Of 90 invoices sampled from 2017-2018 totaling \$60,278.95, 10 included contract-priced items, but none were compliant. Overcharges totaled \$935.70 (1.5% of the sample total).
- For Contract 561191 (2019-2020 period): Of 70 sampled invoices totaling \$82,969.62, 11 invoices (16%) included contract-priced items, all overbilled, resulting in \$2,676.08 in overcharges (3.2% of the total).
- For Contract 558348, a service-based agreement: All six invoices reviewed (totaling \$53,988.50 and representing the population) lacked required service reports. DGS could not produce alternative documentation to confirm service delivery or contract compliance.

Furthermore, in a separate internal review conducted by DGS covering the period from June 2023 to July 2024, staff identified an additional \$4,299.14 in overcharges spread across more than 30 invoice line items. These discrepancies ranged from minor pricing variances to substantial overcharges exceeding \$300 per unit for high-cost items.

In response, Alarm Center acknowledged the pricing discrepancies and implemented a series of corrective actions in June 2024. These measures included:

- Updating system settings to lock-in pricing at the time of order entry
- Enhancing coordination with DGS to verify contract pricing before invoicing
- Improving documentation to support pricing verification and approval

Subsequent testing by OAAS confirmed the effectiveness of these corrective actions. Invoices processed after the updates accurately matched the corresponding MTOs in total cost, and no new pricing discrepancies were identified.

However, it remains unclear how long the issue persisted, as only limited historical records were available for review. The cumulative overcharges documented in this audit likely represent only a portion of the total excess paid.

These results demonstrate a consistent pattern of pricing non-compliance and documentation deficiencies across multiple contract cycles with Alarm Center.

Absence of Receipt Verification Controls – None of the reviewed invoices included documentation confirming receipt of goods or completion of services prior to payment. The COR confirmed that receiving documentation was not reviewed during invoice processing. A similar issue was observed under Contract 558348, where service reports were absent for all reviewed invoices and no other supporting documentation could be provided by DGS. This indicates a prolonged failure to enforce the County's 3-Way Match policy, increasing the risk of paying for incomplete or undelivered services.

The COR and supporting staff were unaware of contract pricing terms and did not validate invoices against the approved rate schedule. Invoices were processed without confirming price accuracy or verifying that goods were received or services completed. Vendor system errors also contributed to price changes post-order, without County knowledge or approval.

As a result, the County incurred avoidable overcharges and exposed itself to risks of waste, noncompliance, and diminished accountability. While recent control enhancements appear to have improved oversight, historical billing discrepancies remain unresolved. No reconciliation or reimbursement effort has yet been undertaken.

Multiple County policies set clear expectations for contract administration and invoice review. Contract 561191, Section C.40, assigns the COR responsibility for invoice approval, receipt verification, and monitoring. Board Policy A-81, Section D, reinforces the requirement to maintain records verifying contractor performance. The DPC Procurement Manual and ERP 3-Way Match guide mandate invoice validation against both receiving documentation and contractual terms.

These expectations align with COSO's internal control principles, including the need for effective control activities (Principle 10) and ongoing monitoring (Principle 16). The documented gaps in pricing enforcement and verification reflect a breakdown in control execution and signal the need for stronger oversight, clearer accountability, and remediation of past billing errors.

RECOMMENDATION:

To address the control weaknesses identified in pricing enforcement and invoice validation, and to ensure compliance with County policies and contract terms across current and future agreements, OAAS recommends the following:

1. **Strengthen Pricing Awareness and Invoice Review Training:** DGS should improve training for CORs and invoice approvers by emphasizing the importance of enforcing contract-specific pricing terms, validating invoice accuracy, and adhering to the County's 3-Way Match policy. This will help ensure that staff responsible for payment approvals understand their role in detecting pricing errors and confirming service or goods receipt.
2. **Standardize Invoice Review Procedures:** DGS should adopt and enforce standardized procedures for reviewing invoices, including verifying pricing against contract schedules and requiring documentation confirming delivery of goods or services.
3. **Enforce Documented Receipt Verification Prior to Payment:** To align with County policy and reduce the risk of paying for undelivered items or incomplete services, DGS should require receiving documentation – such as delivery receipts or signed service reports – to be reviewed and retained before processing invoice payments.
4. **Reconcile and Seek Recovery of Historical Overcharges:** DGS should work with Alarm Center to conduct a full reconciliation of invoices under contracts 543523-543526, 558348, and 561191 to determine the total amount overcharged. Where overbilling is confirmed, the County should formally request reimbursement from Alarm Center and document any corrective actions taken.
5. **Establish Post-Award Corrective Action Commitment:** Under the existing agreement, require Alarm Center to submit a DGS-approved, time-bound corrective action plan to resolve identified pricing discrepancies, implement the necessary documentation, billing, and pricing controls, address root causes revealed by the reconciliation, and affirm ongoing compliance.
6. **Enhance Contract Oversight and Internal Monitoring:** DGS should implement regular internal reviews of high-risk vendor contracts to verify invoice accuracy, receipt validation, and policy adherence. These monitoring activities should occur periodically throughout the contract term to detect issues early and maintain oversight integrity.

BACKGROUND

Alarm Center Group, Inc. ("Alarm Center") is a regional vendor based in San Diego that supplies electronic security system components and provides alarm monitoring services to various County facilities. The Department of General Services (DGS) has maintained a business relationship with Alarm Center for over 20 years through a series of service contracts and blanket purchase agreements (BPAs), relying on the vendor's specialized offerings to support security system installation, maintenance, and emergency repairs.

The current BPA – Contract No. 561191 – was awarded on October 11, 2019, through Request for Bid (RFB) 10391. It was originally limited in scope and value but has undergone numerous funding increases and term extensions to meet evolving departmental needs. The contract's not-

to-exceed (NTE) amount was increased from \$450,000 to \$4,560,000 through a series of amendments approved between 2020 and 2025. These increases reflect sustained demand for security hardware across multiple County departments, including allocations specific to the Sheriff's Department. The contract was most recently extended through June 9, 2025, using short-term extension authority while the County completes its latest solicitation process.

Under this BPA, County departments request parts by submitting Material/Task Orders (MTOs), which are routed through an internal approval process involving Contract Analysts and designated Contracting Officer's Representatives (CORs). DGS procurement policies require that pricing be validated against the approved contract schedule prior to invoice approval. In late 2024, DGS implemented a revised invoice review workflow to improve pricing oversight and address prior documentation and approval weaknesses.

Alarm Center has held multiple County contracts in the past, including a full-service alarm monitoring agreement (Contract No. 558348) and a series of BPAs (Contracts 543523 through 543526) that served a similar function to the current agreement. These prior agreements demonstrate the County's long-term reliance on Alarm Center as a vendor of record for security hardware and services. Internal reviews of past contract activity identified oversight and documentation gaps, which informed subsequent policy improvements related to invoice validation and COR accountability.

During audit fieldwork, DGS released a new Request for Bid (RFB 1485) to re-solicit the BPA for security system parts. Unlike the previous single-bid award, the new solicitation received multiple vendor responses. Alarm Center submitted the most competitive proposal and, at the time of audit testing, was under consideration for award of a new blanket agreement.

METHODOLOGY

OAAS performed the audit using the following methods:

- **Contract Review:** Examined current and historical contracts with Alarm Center, including Contract No. 561191 and prior agreements (543523-543526 and 558348), along with related amendments and pricing schedules.
- **Policy and Process Evaluation:** Reviewed DGS procurement policies, invoice review workflows, Material/Task Order (MTO) procedures, and administrative requirements.
- **Interviews:** Conducted interviews with DGS staff responsible for contract oversight, procurement, and invoice approvals.
- **Pricing and Invoice Analysis:** Compared invoiced prices to fixed contract rates and evaluated invoice approval workflows for documentation of COR and Contract Analyst reviews.
- **Exception Testing:** Traced pricing discrepancies and MTO justifications to identify underlying control weaknesses.

- **COR Assignment and Conflict Review:** Reviewed documentation to confirm COR assignments throughout the contract lifecycle and evaluated financial disclosure forms to assess potential, actual, or perceived conflicts of interest.
- **Duplicate Payment Review:** Analyzed invoice payment data under Contract No. 561191 to determine whether duplicate payments were made for the same goods or services.
- **Targeted Invoice Sampling:**
 - Reviewed a sample of invoices submitted between September 11, 2024, and February 10, 2025, to assess pricing validation, approval documentation, and alignment with contract scope.
 - Selected a 10% random sample of invoices from the first two years of Contracts 561191 and 558348, and the final two years of the 543523-543526 series. This sample, covering 2017-2020, was tested for pricing accuracy and contract compliance.
- **Performance Documentation Review:** For Contract 558348 (alarm monitoring services), examined whether required service reports were attached to each invoice and properly approved, to evaluate compliance with performance verification standards.

DEPARTMENT'S RESPONSE
(DEPARTMENT OF GENERAL SERVICES)

**GENERAL SERVICES**

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MARKO MEDVED, PE, CEM
DIRECTOR

NICOLE J. ALEJANDRE
ASSISTANT DIRECTOR

August 28, 2025

TO: Juan R. Perez
Chief of Audits

FROM: Marko Medved, Director
General Services

**DEPARTMENT RESPONSE TO INVESTIGATION RECOMMENDATIONS: ALARM CENTER
CONTRACT ADMINISTRATION AUDIT**

Complaint I: Opportunities to Strengthen Contract Monitoring and Oversight Practices

OAAS Recommendation:

- 1. DGS should ensure that all CORs comply with DPC training requirements**, including the use of contract monitoring plans, enforcement of price schedules, invoice verification, and proper documentation practices.
- 2. Implement Written Monitoring Plans:** Each active contract should be supported by a written contract monitoring plan that outlines specific oversight tasks, review frequency, and documentation expectations.
- 3. Conduct Periodic Oversight Reviews:** DGS management should periodically review contract files and COR activities to ensure monitoring duties are being properly carried out and documented in accordance with County policy and contract terms.

Action Plan: DGS agrees with and will follow the recommendations. A new contracting officer's representative is in the process of being hired who will carry out these duties specifically for Alarm Center and similar related contracts.

Planned Completion Date: January 30, 2026

Contact Information for Implementation: Boutros Chihwaro, Chief

Complaint II: Opportunity to Strengthen Conflict of Interest Oversight

OAAS Recommendation:

- 1. Enhance Conflict of Interest Review Procedures to Include Prior Vendor Relationships:** DGS should strengthen its conflict-of-interest procedures by incorporating prior vendor employment into its risk assessments when assigning staff to roles involving procurement, invoice approval, or contract oversight. This should include developing a formal review process to evaluate whether prior employment presents an actual or perceived conflict and implementing

mitigation strategies – such as reassignment, supervisory checks, or documentation of impartiality – where appropriate.

Action Plan: DGS agrees with and will follow the recommendation. A new contracting officer's representative is in the process of being hired who will carry out these duties and will be vetted for this risk.

Planned Completion Date: January 30, 2026

Contact Information for Implementation: Boutros Chihwaro, Chief

Complaint III: Opportunity to Improve Pricing Verification and Invoice Review Controls

OAAS Recommendation:

Strengthen Pricing Awareness and Invoice Review Training:

1. DGS should improve training for CORs and invoice approvers by emphasizing the importance of enforcing contract specific pricing terms, validating invoice accuracy, and adhering to the County's 3-Way Match policy. This will help ensure that staff responsible for payment approvals understand their role in detecting pricing errors and confirming service or goods receipt.
2. **Standardize Invoice Review Procedures:** DGS should adopt and enforce standardized procedures for reviewing invoices, including verifying pricing against contract schedules and requiring documentation confirming delivery of goods or services.
3. **Enforce Documented Receipt Verification Prior to Payment:** To align with County policy and reduce the risk of paying for undelivered items or incomplete services, DGS should require receiving documentation – such as delivery receipts or signed service reports – to be reviewed and retained before processing invoice payments.
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5. **Establish Post-Award Corrective Action Commitment:** Under the existing agreement, require Alarm Center to submit a DGS-approved, time-bound corrective action plan to resolve identified pricing discrepancies, implement the necessary documentation, billing, and pricing controls, address root causes revealed by the reconciliation, and affirm ongoing compliance.
6. **Enhance Contract Oversight and Internal Monitoring:** DGS should implement regular internal reviews of high-risk vendor contracts to verify invoice accuracy, receipt validation, and policy adherence. These monitoring activities should occur periodically throughout the contract term to detect issues early and maintain oversight integrity.

Action Plan: DGS agrees with and will follow the recommendations.

Planned Completion Date: January 30, 2026

Contact Information for Implementation: Boutros Chihwaro, Chief