

Internal Audit Department

O R A N G E C O U N T Y

FINAL CLOSE-OUT

FIRST FOLLOW-UP AUDIT:

AUDIT OF INTERNAL CONTROLS: COUNTY EXECUTIVE OFFICE/ INFORMATION TECHNOLOGY

CONTRACT ADMINISTRATION AND RELATED CONTRACT PAYMENTS

ORIGINAL AUDIT No. 2827

AS OF SEPTEMBER 10, 2009

Our First Follow-Up Audit found the County Executive Office/Information Technology (CEO/IT) fully implemented all eight (8) recommendations from our original audit report dated February 11, 2009. CEO/IT administered 387 contracts totaling \$109 million and made over \$17 million in contract payments during the original audit period between July 1, 2007 and June 30, 2008.

AUDIT No: 2927-A

REPORT DATE: NOVEMBER 5, 2009

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Deputy Director: Eli Littner, CPA, CIA

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RISK BASED AUDITING

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Transmittal Letter



Audit No. 2927-A November 5, 2009

TO: Satish Ajmani
Deputy CEO/Chief Information Officer

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

SUBJECT: **First and Final Close-Out** Follow-Up
Audit of Internal Controls: County
Executive Office/Information Technology
Contract Administration and Related
Contract Payments, Original Audit No.
2827, Issued February 11, 2009

We have completed a First Follow-Up Audit of Internal Controls for the County Executive Office/Information Technology (CEO/IT) contract administration and related contract payments. Our audit was limited to reviewing, as of September 10, 2009, actions taken to implement eight (8) recommendations from our original audit. We conducted this First Follow-Up Audit in accordance with the *FY 09-10 Audit Plan and Risk Assessment* approved by the Audit Oversight Committee and Board of Supervisors (BOS).

The results of our First Follow-Up Audit are discussed in the **OC Internal Auditor's Report** following this transmittal letter. Because satisfactory corrective action has been taken for the eight audit recommendations, **this report represents the close-out of the original audit.** We commend CEO/IT for their timeliness and responsiveness in taking corrective actions on our audit recommendations.

Each month I submit an **Audit Status Report** to the BOS where I detail any material and significant audit findings released in reports during the prior month and the implementation status of audit recommendations as disclosed by our Follow-Up Audits. Accordingly, the results of this audit will be included in a future status report to the BOS.

Other recipients of this report are listed on the **OC Internal Auditor's Report** on page 7.

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Internal Controls: County Executive Office/Information Technology
Contract Administration and Related Contract Payments
Audit No. 2927-A*

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OC Internal Auditor's Report



Audit No. 2927-A

November 5, 2009

TO: Satish Ajmani
Deputy CEO/Chief Information Officer

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

SUBJECT: **First and Final Close-Out** Follow-Up Audit of Internal Controls:
County Executive Office/Information Technology Contract Administration and
Related Contract Payments

Scope of Review

We have completed a First Follow-Up Audit of Internal Controls for the County Executive Office/Information Technology (CEO/IT) contract administration and related contract payments. Our audit was limited to reviewing, as of September 10, 2009 actions taken to implement eight (8) recommendations from our original audit report dated February 11, 2009 (Audit No. 2827).

Background

We conducted an audit of internal controls over contract administration, contract payments and sole source contracts, which included an evaluation of the adequacy and integrity of internal controls; compliance with department and County policies, and evidence of business process efficiency and effectiveness. During the original audit period, CEO/IT administered 387 contracts totaling \$109 million and made over \$17 million in contract payments.

Results

Our First Follow-Up Audit indicated that CEO/IT fully implemented all eight (8) recommendations. **As such, this report represents the final close-out of the original audit.** Based on the First Follow-Up Audit we conducted, the following is the implementation status of the eight recommendations:

1. **Contract Monitoring for Expiration or Renewal (Control Finding)**

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

Current Status: Implemented. A process for monitoring contract renewals was established and documented into a policy. This process was covered during internal procurement training held for Office of the CIO staff in January 2009, and is highlighted in a CEO/IT procurement manual. A *Contracts Listing* schedule is now prepared for staff that highlights pending contract renewals for the current fiscal year. Our testing found that CEO/IT provided timely *Notices of Expiring Agreements* to program managers; however, there was not consistent adherence to the policy requirements by program managers in responding to the Notices. CEO/IT Management subsequently sent out a policy reminder to all staff on this issue. Because CEO/IT established written policy describing contract monitoring responsibilities, we consider this recommendation implemented.



2. Verification of Delivered Items (Control Finding)

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

Current Status: **Implemented.** A process has been implemented to confirm receipt and verification of commodity purchases at the Data Center prior to CEO/IT Finance payment. This process has been added to the CEO/IT Finance processes and procedure binder and all relevant staff have been trained. Assigned staff at the Data Center or the Project Manager ensures that the items have been received and inspected before sending the packing slips to CEO/IT Finance. The packing slips are stamped "Received and Inspected By" and dated. If there is no packing slip, a confirmation email is acceptable to verify this process. This process is in place for all orders. We tested a sample of 15 paid invoices for commodities purchases and found that all items had supporting documents and verified confirmation of commodities received before invoice approval. No exceptions were noted. Therefore, we consider this recommendation implemented.

3. Review of Support Documentation (Control Finding)

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

Current Status: **Implemented.** Core responsibilities were reiterated with the CEO/IT Finance team with the expectation that all charges be checked against appropriate supporting documentation prior to payment. The CEO/IT Finance Accounts Payable Supervisor and an Administrative Manager now audit and review payment records before authorizing invoice payments.

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

Regarding the issue we found with the ACS contract, the County notified ACS in writing of anomalies against its contractual obligations to provide detailed supporting documentation for all services rendered, by ACS itself or by designated third-party suppliers. Because ACS had not provided all requested supporting documentation, the issue was escalated with ACS and County management. This contract was terminated on May 31, 2009 and is no longer active. The new contract is a fixed price contract and specific cost information is now not required.

We tested a sample of 15 paid invoices and reviewed supporting documents; verified the CEO/IT Finance Accounts Payable Supervisor audited payment records before authorizing invoice payment, and that the Administrative Manager reviewed payment records before final approval. No exceptions were noted. Therefore, we consider this recommendation implemented.



4. **CEO/IT Authorization Signature List** (Control Finding)

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

Current Status: Implemented. The departmental Authorized Signature List has been updated and three employees were removed from the list. A new authorized signature list with CAPS+ has been updated and kept on file. Also, CEO/IT Finance implemented an employee entrance/exit check list for both the CEO/IT Finance and CEO/IT Contracts team. This checklist is included in the formal CEO/IT Finance Processes and Procedures Binder and all relevant staff has been educated on its use. Therefore, we consider this recommendation implemented.

5. **Accuracy of Contract Payment Records** (Control Finding)

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

Current Status: Implemented. In the original audit, we noted the *Payment Record* for the SBC-CalNet contract was not accurately updated to reflect contract amendments, understating the remaining contract balance by \$5 million. The SBC-CalNet contract balance has now been updated to reflect the current and complete Price Agreement. The CEO/IT Finance Accounts Payable Supervisor now audits payment records before authorizing invoice payments. Additionally, the Administrative Manager reviews payment records before final approval. We tested a sample of invoices for contracts and respective *Payment Records* to verify they were accurate and current and no exceptions were noted. Because supervisory reviews are being conducted to ensure the accuracy of *Payment Records*, we consider this recommendation implemented.

6. **Board Approval of Sole Source Contracts** (Significant Issue)

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

Current Status: Implemented. In the original audit, we noted two instances where Board of Supervisors' (BOS) approval of Sole Source contracts was not obtained in accordance with requirements of the *Contract Policy Manual (CPM)*. One instance was a sole source lease agreement. CEO/IT reviewed the Key Equipment lease with the County Procurement Office (CPO) in February 2009 to ensure alignment on contract policy. The consensus was that the *CPM* does not specifically address lease agreements and there will be some instructions and procedures developed by the CPO to address leases.

The other instance was a sole source contract for printer maintenance that was not indicated as sole source on the Agenda Staff Report submitted for Board approval. It was noted the IBM InfoPrint contract is a proper sole source contract and contains the required sole source justification form. The CEO/IT Contracts Manager (who is a Deputy Purchasing Agent) now reviews and approves all sole source documentation to ensure compliance with policy requirements.

Because CEO/IT evaluated the above contracts and consulted with the CPO to ensure compliance with policy requirements, we consider this recommendation implemented.



7. **Review of Sole Source Justification Forms (Significant Issue)**

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

Current Status: Implemented. The CEO/IT Contracts Manager who is a Deputy Purchasing Agent now reviews and approves all sole source contract documentation to ensure compliance with policy requirements. This process was covered during internal procurement training that occurred for Office of the CIO staff in January 2009 and highlighted in a formal procurement manual.

As additional oversight of sole source contracts, the County Procurement Office (CPO) established procedures in April 2009 requiring their review of all sole source requests that exceed certain monetary thresholds prior to Board approval. In September 2009, the CPO issued a document "Sole Source Contracts – Process Enhancements" that provides further guidelines for preparing, approving, and tracking sole source requests. Together with CEO/IT's review and approval and the oversight responsibilities by the County Procurement Office, we consider this recommendation implemented.

8. **Payment Review Outside of CEO/IT Finance (Control Finding)**

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

Current Status: Implemented. The Pacific Technologies contract was transitioned to CEO/IT Finance. Our testing of a sample of Pacific Technologies invoices found them all processed by CEO/IT Finance. Therefore, we consider this recommendation implemented.

We appreciate the cooperation and assistance extended to us by the personnel of CEO/IT during our First Follow-Up Audit. If you have any questions, please contact me directly or Eli Littner, Deputy Director at 834-5899, or Michael Goodwin, Senior Audit Manager at 834-6066.

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

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