

# Internal Audit Department

O R A N G E C O U N T Y  
6<sup>th</sup> Largest County in the USA

## Internal Control & Compliance Audit:

### OC PUBLIC WORKS BID & PROPOSAL PROCESSES

#### Key Control Audit

For the Period July 1, 2009  
through June 30, 2012

OC Public Works awarded 15 Public Works contracts totaling \$144 million and 16 A-E Service contracts totaling \$39 million between July 1, 2009 and June 30, 2012. These contracts each exceeded \$1 million when originally awarded.

We evaluated the effectiveness of selected processes, policies and procedures pertaining to OC Public Works' (OCPW) Bid & Proposal processes for Public Works and A-E Service Contracts.

We noted **three (3) Control Findings** where OCPW can enhance their controls to ensure ongoing compliance with the County's Contract Policy Manual including formalizing their delegated responsibility and technical qualifications for the staff assigned to procure public works contracts and providing additional central oversight by OCPW/Administrative Services.

AUDIT NO: 1225-A  
REPORT DATE: FEBRUARY 19, 2014

**Director:** Dr. Peter Hughes, MBA, CPA, CIA  
Senior Audit Manager: Michael Goodwin, CPA, CIA  
Audit Manager: Kenneth Wong, CPA, CIA

#### RISK BASED AUDITING

GAO & IIA Peer Review Compliant – 2001, 2004, 2007, 2010



American Institute of Certified Public Accountants Award to Dr. Peter Hughes as 2010 Outstanding CPA of the Year for Local Government

GRC (Government, Risk & Compliance) Group 2010 Award to IAD as MVP in Risk Management



2009 Association of Certified Fraud Examiners' Hubbard Award to Dr. Peter Hughes for the Most Outstanding Article of the Year – Ethics Pays



2008 Association of Local Government Auditors' Bronze Website Award



2005 Institute of Internal Auditors' Award to IAD for Recognition of Commitment to Professional Excellence, Quality, and Outreach

 ORANGE COUNTY BOARD OF SUPERVISORS'  
**Internal Audit Department**

*GAO & IIA Peer Review Compliant - 2001, 2004, 2007, 2010*

*Providing Facts and Perspectives Countywide*

**RISK BASED AUDITING**

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**OC Fraud Hotline (714) 834-3608**



## Transmittal Letter



**Audit No. 1225-A February 19, 2014**

**TO:** Shane L. Silsby, Director  
OC Public Works

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

**SUBJECT:** Internal Control and Compliance Audit:  
OC Public Works Bid & Proposal Processes

We have completed an Internal Control and Compliance Audit of OC Public Works' Bid & Proposal Processes for the period July 1, 2009 through June 30, 2012. We performed this audit in accordance with our *FY 2012-13 Audit Plan and Risk Assessment* approved by the Audit Oversight Committee and the Board of Supervisors. Our final report is attached for your review.

Please note we have a structured and rigorous **Follow-Up Audit** process in response to recommendations and suggestions made by the Audit Oversight Committee (AOC) and the Board of Supervisors (BOS). Our **First Follow-Up Audit** will begin at six months from the official release of the report. A copy of all our Follow-Up Audit reports is provided to the BOS as well as to all those individuals indicated on our standard routing distribution list.

The AOC and BOS expect that audit recommendations will typically be implemented within six months and often sooner for significant and higher risk issues. Our **Second Follow-Up Audit** will begin at six months from the release of the first Follow-Up Audit report, by which time **all** audit recommendations are expected to be addressed and implemented. At the request of the AOC, we are to bring to their attention any audit recommendations we find still not implemented or mitigated after the second Follow-Up Audit. The AOC requests that such open issues appear on the agenda at their next scheduled meeting for discussion.

We have attached a **Follow-Up Audit Report Form**. Your department should complete this template as our audit recommendations are implemented. When we perform our first Follow-Up Audit, we will need to obtain the completed form to facilitate our review.

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

As always, the Internal Audit Department is available to partner with your staff so that they can successfully implement or mitigate difficult audit recommendations. Please feel free to call me should you wish to discuss any aspect of our audit report or recommendations. Additionally, we will request your department complete a **Customer Survey** of Audit Services. You will receive the survey shortly after the distribution of our final report.

Other recipients of this report are listed on the **OC Internal Auditor's Report** on page 5.

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OC Public Works Bid & Proposal Processes  
Audit No. 1225-A***

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**Audit No. 1225-A**

**February 19, 2014**

TO: Shane Silsby, Director  
OC Public Works

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

SUBJECT: Internal Control and Compliance Audit:  
OC Public Works Bid & Proposal Processes

## Audit Highlight

We audited a sample of **ten (10)** Public Works and A-E service contracts **totaling \$113 million** that were awarded over a three-year period ending June 30, 2013.

Our detailed testing covered contracts that exceeded \$1 million, which represents **92%** of the major Public Works and A-E Service contracts awarded during the audit period and included in our audit population.

Our audit identified **three (3) Control Findings** to enhance bid & proposal controls and processes to ensure compliance with requirements in the County's Contract Policy Manual and OC Public Work's internal policies and procedures.

## OBJECTIVES

In accordance with our *FY 2012-13 Audit Plan and Risk Assessment* approved by the Audit Oversight Committee and the Board of Supervisors, we conducted an Internal Control and Compliance Audit of OC Public Works (OCPW) **Bid & Proposal Processes** for Public Works and Architect-Engineer (A-E) Service contracts.

Our audit objectives included obtaining an understanding of and evaluating selected processes, policies and procedures pertaining to Bids & Proposals, including the Request for Proposal (RFP) process; conducting limited testing of contract awards for compliance with selected County's Contract Policy Manual and OCPW policies and procedures; and evaluating associated process efficiencies and effectiveness. Our audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. The objectives of this audit were to:

**Objective #1:** Evaluate the effectiveness of selected processes, policies and procedures pertaining to Bids & Proposals for Public Works and Architect-Engineer (A-E) Service contracts.

**Objective #2:** Determine if OCPW's Bid & Proposal processes are efficient and effective (e.g., no backlogs, duplication of work or manual processes that could be automated).

## RESULTS

**Objective #1:** We describe in **two (2) Control Findings** where OCPW can enhance their Bid & Proposal policies and procedures by ensuring Memorandums of Recommendations are signed by all evaluation committee members and formalizing delegated responsibility and technical qualifications for the staff assigned to procure public works contracts.

**Objective #2:** Our audit did not note any instances of duplication of work or processes that could be automated for OCPW's Bid & Proposal processes for Public Works and A-E Service contracts. We identified **one (1) Control Finding** for providing additional monitoring and oversight of the bid & proposal process by OCPW/Administrative Services.

# OC Internal Auditor's Report



The following table summarizes our findings and recommendations for this audit. See further discussion in the *Detailed Results, Findings, Recommendations and Management Responses* section of this report. See *Attachment A* for a description of Report Item Classifications.

Finding No.	Finding Classification (see Attachment A)	Finding and Page No. in Audit Report	Recommendation	Concurrence by Management
1.	<b>Control Finding</b>	Memorandums of Recommendation (summary scoring sheets) did not always include the signatures from all evaluation committee members per the Contract Manual Policy. (p.7).	Ensure memorandums recommending a contract proposal are signed by all evaluation committee members as required by the Contract Policy Manual.	Yes
2.	<b>Control Finding</b>	Deputy Purchasing Agents were not assigned the primary role for procuring Public Works contracts as required by the 2007 CPM (pgs.7-8). (Note: This exception to policy was authorized by the County Procurement Office.)	Identify the primary role in procuring Public Works contracts and maintain documentation as to the qualifications, training experience, and technical experience of the individual responsible for procuring Public Works contracts.	Yes
3.	<b>Control Finding</b>  <b>Efficiency and Effectiveness</b>	Responsibility for contract bid & proposals and for processing change orders is delegated to the OCPW Divisions with little monitoring and oversight by OCPW/Administrative Services. (pg.9)	OCPW/Administrative Services evaluate providing additional oversight and monitoring of major Public Works and A-E Service contract awards processed in the OCPW Divisions.	Yes



## BACKGROUND

The primary mission of OC Public Works is to “ensure quality of service today and quality of life tomorrow.” OC Public Works accomplishes its missions and strategic objectives through a dedicated professional workforce that is organized in the following four divisions:

### 1. OC Engineering

Protects the public from the threat of floods by designing, constructing, operating, and maintaining major flood control channels, and provides the public with highways and streets by designing, constructing, maintaining, and managing a road system in unincorporated areas and cities that contract with OCPW for services. OC Engineering includes OC Road, OC Flood, OC Survey and OC Inspections.

### 2. OC Facilities

Provides the public and other County departments with support services that include building maintenance, parking facility administration, facilities operations, and public works projects.

### 3. OC Planning

Protects public safety and the environment by providing planning, environmental analysis, zoning, grading and building services in incorporated areas. OC Planning develops and implements water quality improvement strategies, enforces agricultural weed abatement and pesticide regulations; and implements weights and measures.

### 4. Administrative Services

This division is responsible for supporting all OCPW divisions by providing accounting, finance, information technology, purchasing, strategic planning and legislation, internal controls, communication, and policies and procedures.

**County's Contract Policy Manual.** The California Government Code authorizes the County Board of Supervisors to employ a **County Purchasing Agent** to perform certain duties on behalf of the County. Under the direction of the County Purchasing Agent, employees are trained and deputized as Deputy Purchasing Agents to perform in the County Purchasing Agent's capacity. Within the County Executive Office is the **County Procurement Office (CPO)** where the County Purchasing Agent administers procedures and methods over purchasing. A **Contract Policy Manual (CPM)**, updated July 2012, defines general responsibilities, rules and procedures, types of contracts, and methods of solicitation for County procurement. Our three-year audit period included Public Works and A-E Service contracts subject to the 2007 CPM.

**Public Works Contracts.** Public Work projects are defined in Public Contract Code Section 22002 as any of the following: “construction, reconstruction, erection, alteration, renovation, improvement, demolition, and repair work involving any publicly owned, leased, or operated facility; and painting or repainting any publicly owned, leased, or operated facility.” Public Works contracts are issued in accordance with the Public Contract Code. OCPW reported the following Public Works contracts, each exceeding \$1 million, awarded between July 2009 and June 2012:

OCPW Section	Public Works Contracts	Value
OC Facilities Operations	2	\$10,657,881
OC Flood Santa Ana River	4	64,370,900
OC Road	9	69,191,342
<b>Total</b>	<b>15</b>	<b>\$144,220,123</b>



**Architect-Engineer (A-E) Service Contracts.** A-E Service contracts include architectural, engineering, environmental, land surveying services, and related incidental services. Environmental services are generally performed in connection with project development and permit processing to comply with federal and state environmental laws. A-E services can include investigations, designs, plans and specifications, reports, cost estimates, shop drawings, supervision of construction, land surveying materials testing and other related services in support of an A-E project.

OC Public Works reported the following A-E Service contracts that each exceeded \$1 million and were awarded between July 1, 2009 and June 30, 2012:

OCPW Section	Architect-Engineer Service Contracts	Value
OC Flood Santa Ana River	2	\$16,744,363
OCPW Procurement Services/OC Watersheds	14	\$23,100,000
<b>Total</b>	<b>16</b>	<b>\$39,844,363</b>

**CPM Section 4 – Methods of Solicitation** establishes methods of solicitation for bidding and awarding Public Works and A-E Service contracts. A bid is the offer submitted by a bidder in response to an Invitation for Bid (IFB), a request for quotation, or a multi-step bidding procedure. A bid includes a cost for goods or services to be provided per the specifications included in the bid solicitation. A proposal is the document submitted by a proposer in response to a Request for Proposal (RFP). A proposal includes a detailed description of the good or services to be provided to the County per the scope of work included in the RFP, including but not limited to cost, time frame for completion of work or delivery of goods.

According to the County Procurement Office, bids are made for Public Works contracts, and proposals are made for A-E Service contracts. There are distinct differences in the bid & proposal process for these two types of contracts. **CPM Section 3.5** defines the requirements for awarding A-E Service contracts and **CPM Section 3.6** defines requirements for awarding Public Works contracts. A-E Service contracts exceeding \$200,000 are required to use the RFP process and generally involve a panel of evaluators and recommended proposals. Public Works contracts may be requested by bid or proposal, and are awarded by the Board of Supervisors based solely on the "lowest responsive and responsible bidder."

## SCOPE AND METHODOLOGY

Our audit covered the period July 1, 2009 through June 30, 2012, and included only Public Works and A-E Service contract awards exceeding \$1 million.

## SCOPE EXCLUSIONS

We did not review Bids & Proposals associated with Public Works and A-E Service contracts with an initial value **under \$1 million**. We also **did not** assess, evaluate or obtain independent outside validation regarding the necessity and reasonableness of technical methodologies and assumptions used in evaluating bids and proposals associated with the Public Works and A-E Service contracts we selected for review. In this regard we relied upon the authorizing signatures of the project personnel, evaluation panel members and OCPW management affixed on related documentation.



## Management's Responsibilities for Internal Controls

In accordance with the Auditor-Controller's County Accounting Manual Procedure, Section S-2 *Internal Control Systems*,

All County departments/agencies shall maintain effective internal control systems as an integral part of their management practices. This is **because management has primary responsibility for establishing and maintaining the internal control system**. All levels of management must be involved in assessing and strengthening internal controls. Control systems shall be continuously evaluated (by Management) and weaknesses, when detected, must be promptly corrected. The criteria for evaluating an entity's internal control structure is the Committee of Sponsoring Organizations (COSO) control framework. **IAD's Internal Control Audit enhances and complements, but does not substitute for OC Public Works' continuing emphasis on control activities and self-assessment of control risks.**

## Inherent Limitations in Any System of Internal Control

Because of inherent limitations in any system of internal controls, errors or irregularities may nevertheless occur and not be detected. Specific examples of limitations include, but are not limited to, resource constraints, unintentional errors, management override, circumvention by collusion, and poor judgment. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or the degree of compliance with the procedures may deteriorate. Accordingly, our audit would not necessarily disclose all weaknesses in OC Public Works' operating procedures, practices, and compliance with County policy.

## Acknowledgment

We appreciate the courtesy extended to us by OC Public Works during our audit. If we can be of further assistance, please contact me directly at 834-5475 or Michael Goodwin, Senior Audit Manager at 834-6066.

## Attachments

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

Members, Board of Supervisors  
Members, Audit Oversight Committee  
Michael B. Giancola, County Executive Officer  
Mark Denny, Chief Operating Officer  
Jessica O'Hare, Assistant to the Chief Operating Officer  
Mary Fitzgerald, Director, Administrative Services, OCPW  
Rob Richardson, County Purchasing Agent, County Procurement Office  
Kevin Onuma, Interim Director/Chief Engineer, OC Engineering  
Richard Sandzimier, Director, OC Planning, OCPW  
Phillip Cook, Manager, OC Facilities Operations, OCPW  
Octavio Rivas, Manager, OC Construction, OCPW  
Vincent Gin, Manager, Project Management, OCPW  
Ron Vienna, Manager, Procurement and Special Services, OCPW  
Randi Dunlap, Manager, Policy and Compliance, OCPW  
JC Squires, Manager, Central Quality Assurance  
Foreperson, Grand Jury  
Susan Novak, Clerk of the Board of Supervisors  
Macias, Gini & Co. LLP, County External Auditor



**Objective #1:** Evaluate the effectiveness of selected processes, policies and procedures pertaining to Bids & Proposals for Public Works and Architect-Engineer (A-E) Service contracts.

## AUDIT STEPS

To accomplish this objective, we audited internal controls and compliance over Bids & Proposals for Public Works and A-E Service contracts. We performed the following audit steps:

- ✓ Obtained an understanding of OCPW's Bid & Proposal processes for selected Public Works and A-E Service contracts and related internal controls through interviews and review of documents in:

1. OC Facilities Operations
2. OC Flood Santa Ana River
3. OC Inspection
4. OC Planning
5. OC Road
6. OCPW Procurement Services

- ✓ Evaluated and assessed selected requirements in the Contract Policy Manual for Bid & Proposal and for Methods of Solicitation for Public Works and A-E Service contracts.

- ✓ Tested a sample of **10 contract awards totaling \$113 million** to evaluate whether the Bid & Proposal processes complied with requirements in the Contract Policy Manual including areas such as:

1. Soliciting bids to candidate firms and obtaining vendor Statements of Qualifications.
2. Establishing evaluation panels to review and rate bid proposals.
3. Staffing evaluation panels with members having requisite job knowledge and experience without conflicts of interest.
4. Adhering to CPM requirements for conducting written and oral vendor evaluations.
5. Documenting evaluation panel outcomes presented for Board of Supervisors' approval.
6. Negotiating contract price and specifications following contract approval.

## CONCLUSION

We describe in **two (2) Control Findings** where OCPW can enhance their policies and procedures by ensuring Memorandums of Recommendations are signed by all evaluation committee members and formalizing their delegated responsibility and technical qualifications for the staff assigned to procure public works contracts.

Our audit found that responsibility for processing bids & proposals is delegated to OCPW Divisions with limited monitoring and oversight by OCPW/Administrative Services. In addition, per the 2007 Contract Policy Manual, Deputy Purchasing Agents (DPAs) were to be the primary role in procuring and modifying Public Works contracts; however, these roles were assigned to non-DPAs, with the approval of the County Procurement Office (CPO), in order to better assure that the requisite competence and experience necessary to procure and properly manage the complex and technical Public Works and A-E Service contracts. These individuals consisted of Division Managers, Resident Engineers, and Project Managers who were directly involved with the projects. The DPA requirement was formally changed in the 2012 Contract Policy Manual which no longer requires DPAs involvement in procuring Public Works contracts.

Our two Control Findings are discussed below:



## Finding No. 1 – Memorandums of Recommendations (Summary Scoring Sheets) Missing Required Evaluation Committee Signatures (Control Finding)

### Summary

We noted in five (5) of ten (10) contract awards we tested where the Memorandum of Recommendations (summary evaluation committee scoring sheets) did not include signatures from all evaluation committee members as required by the CPM. Signatures by evaluation committee members on the Memorandums of Recommendation represent concurrence with the final ratings, scores and recommendations.

### Details

Our testing of five (5) A-E Service contract awards found that each contract file included a Memorandum of Recommendation, which is a summary showing the ranking of all proposals based on the aggregate scores from the evaluation committee. However, three (3) Memorandums of Recommendation did not include the required signatures from each evaluation committee member as the policy requires. We found two instances where the Memorandums of Recommendation were not signed by one of the evaluation committee members, and one instance where it was not signed by four out of five evaluation committee members. According to the **2007 CPM**, Section 4.2 – Request for Proposal (RFP):

*“Evaluators shall initially score proposals individually. Scores will be combined and tallied. After scores have been tallied and discussed and a successful proposal determined, a memorandum of understanding will be signed by the evaluators and made part of the contract file.”*

### Recommendation No. 1

OC Public Works ensure Memorandums of Recommendation for proposals are signed by the entire evaluation committee and made part of the contract file as required by the Contract Policy Manual.

### OC Public Works Management Response:

Concur with recommendation. Purchasing staff will ensure that memorandums are signed by each evaluation team member. For those situations where it is not possible to obtain all signatures on a single memorandum, staff will strive to have copies of the memorandum signed by each evaluation panel member and retain all signed originals in the Purchasing File. In the case of a missing signature, staff will document all attempts taken to obtain signatures.

## Finding No. 2 – Need to Formalize the Required Qualifications for Employees Appointed to Procure Public Works Contracts (Control Finding)

### Summary

OC Public Works is now (since 2012) formally allowed to use non-Deputy Procurement Agents (DPAs) in the primary management role for procuring Public Works contracts due to a revision to the 2012 CPM. This revision deleted the former requirement for Public Works to use DPAs and instead allows the use of County employees “possessing appropriate qualifications, training and technical experience” necessary to ensure compliance with CPM and Public Contract Code requirements. We were informed by OCPW and confirmed by the County Procurement Office that they received an exemption regarding the use of non-DPAs before 2012 for procuring Public Works contracts. (Note: The CPM requirement for DPAs to be the primary role for procuring A-E Service contracts still exists and is in effect.)



## Details

Our testing of five Public Works contracts noted that a DPA did not directly participate in the procurement and processing of the contracts. According to the **2007 CPM, Section 3.6 – Public Works Contracts**:

*“The agency/department Deputy Purchasing Agent shall have the primary role in the preparation and processing of the actual contract, subsequent changes to the contract, the development of purchase order contracting procedures, and monitoring of the contracting process for all contracts.”*

We discussed this issue with the County Procurement Office. According to the County Purchasing Agent, through his discussions with County Counsel and their review of the Public Contract Code requirements, it was decided (prior to the 2012 revised CPM) that DPAs did not have to participate in the awarding of public works contracts due to the technical nature of public works contracts. On July 24, 2012, the Board of Supervisors approved a revised 2012 CPM. The revision **removed the requirement for a Deputy Purchasing Agent** to be involved with processing change orders for Public Works, Human Services and Real Estate contracts due to the technical nature and specifications of the contracts. Instead, the CPM now allows for this role to be provided by any County employee who possesses the appropriate experience, training, qualifications and technical expertise the Department deems appropriate.

**Our review and testing of Public Works bids & proposals confirmed that department personnel with knowledge of the project’s statutory and technical requirements had the primary role in procuring Public Works contracts prior to the CPM revisions made in 2012.** In instances where contract awards required approval from the Board of Supervisors, OCPW’s Procurement Services Manager, a DPA, reviewed and authorized the ASR.

In the files we tested, however, no documentation was maintained by OCPW showing the experience and qualifications of the employee responsible as the primary role. Since the requirement for participation from a DPA was removed, it will be important that OCPW ensure the employee in the primary role in has the experience, training, qualifications and technical expertise, and this information is documented in the contract file.

## Recommendation No. 2

OC Public Works establish the requirements and qualifications for staff assigned the primary role for procuring Public Works contracts and retain evidence that staff assigned this role meet these qualifications in order to facilitate a subsequent review from either OCPW Administration or a third party such as Internal Audit.

### OC Public Works Management Response:

Concur with recommendation. OCPW Procurement will work with each appropriate Division to create a central file that includes the qualifications for each employee responsible for procuring Public Works contracts. The file would document those qualifications on an employee assignment matrix. The matrix would then be added to the project file.



**Audit Objective #2:** Determine if OCPW's Bid & Proposal processes are efficient and effective (e.g., no backlogs, duplication of work or manual processes that could be automated).

## AUDIT STEPS

To accomplish this objective, we used auditor inquiry and observation to determine if OCPW's processes for awarding Public Works and A-E Service contracts were efficient and effective in the areas noted under this objective.

## RESULTS

We did not note any instances of backlogs, duplication of work or manual processes that could be automated in OCPW's processes. We identified **one (1) Control Finding** for OCPW/Administrative Services to consider additional monitoring and oversight of the bid & proposal process for Public Works and A-E Service contracts, which is discussed below.

### Finding No. 3 – Limited Oversight and Monitoring by OCPW/Administrative Services

#### Summary

OC Public Works delegated authority to the OCPW divisions for procuring Public Works and A-E Service contracts. As such, the procurement process is decentralized with minimal oversight and monitoring by OCPW/Administrative Services. **(Control Finding)**

#### Details

Our audit noted that the awarding of Public Works and A-E Service contracts is decentralized and occurs in various OCPW Divisions and Procurement Services. We found that OCPW/Administrative Services: 1) did not receive periodic management reports of awarded Public Works and A-E Service contracts to provide oversight or monitoring; 2) did not maintain a central or master list of all awarded Public Works and A-E contracts; and 3) did not formally establish their assignment of authority to the respective Division Managers. OCPW/Administrative Services should evaluate the feasibility of providing additional oversight and monitoring of its divisions that are currently responsible for awarding major Public Works and A-E Service contracts. Providing oversight and monitoring of the divisions can help ensure consistency in bid & proposal processes.

#### Recommendation No. 3

OC Public Works evaluate whether Administrative Services should provide additional monitoring and oversight of the bid & proposal process for Public Works and A-E Service contracts.

#### OC Public Works Management Response:

Concur with recommendation. Procurement Services will, on a post award basis, periodically test a sample of the decentralized formal and informal bid and selection files to ensure they properly document compliance with County and Department policies. In addition, the Department's Central Quality Assurance Division, as an independent third party, will conduct random reviews of Public Works and A-E Service contract files to ensure compliance with County procurement procedures.



## ATTACHMENT A: Report Item Classifications

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

▶ **Critical Control Weaknesses:**

These are Audit Findings or a combination of Auditing Findings that represent critical exceptions to the audit objective(s) and/or business goals. Such conditions may involve either actual or potential large dollar errors or be of such a nature as to compromise the Department's or County's reputation for integrity. Management is expected to address Critical Control Weaknesses brought to their attention immediately.

▶ **Significant Control Weaknesses:**

These are Audit Findings or a combination of Audit Findings that represent a significant deficiency in the design or operation of internal controls. Significant Control Weaknesses require prompt corrective actions.

▶ **Control Findings:**

These are Audit Findings concerning internal controls, compliance issues, or efficiency/effectiveness issues that require management's corrective action to implement or enhance processes and internal controls. Control Findings are expected to be addressed within our follow-up process of six months, but no later than twelve months.



## ATTACHMENT B: OC Public Works Management Responses



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### Memorandum

**DATE:** February 4, 2014  
**TO:** Dr. Peter Hughes, Internal Audit Director  
**FROM:** Shane L. Silsby, P.E., Director, OC Public Works  
**SUBJECT:** Response to Internal Audit Report No. 1225 A-C

This memorandum provides OC Public Works' (OCPW) response to Internal Audit Report No. 1225 (A, B, & C) relating to the Control Findings and corresponding Report Recommendations.

#### A. Report No. 1225-A "Bid & Proposal Processes"

1. Recommendation No. 1 – "OC Public Works ensure Memorandums of Recommendation for proposals are signed by the entire evaluation committee and made part of the contract file as required by the Contract Policy Manual."

OC Public Works' Response: Concur with recommendation. Purchasing staff will ensure that memorandums are signed by each evaluation team member. For those situations where it is not possible to obtain all signatures on a single memorandum, staff will strive to have copies of the memorandum signed by each evaluation panel member and retain all signed originals in the Purchasing File. In the case of a missing signature, staff will document all attempts taken to obtain signatures.

2. Recommendation No. 2 – "OC Public Works establish the requirements and qualifications for staff assigned the primary role for procuring Public Works contracts and retain evidence that staff assigned this role meet these qualifications in order to facilitate a subsequent review from either OCPW Administration or a third party such as Internal Audit."

OC Public Works' Response: Concur with recommendation. OCPW Procurement will work with each appropriate Division to create a central file that includes the qualifications for each employee responsible for procuring Public Works contracts. The file would document those qualifications on an employee assignment matrix. The matrix would then be added to the project file.

3. Recommendation No. 3 – "OC Public Works evaluate whether Administrative Services should provide additional monitoring and oversight of the bid & proposal process for Public Works and A-E Service contracts."

OC Public Works' Response: Concur with recommendation. Procurement Services will, on a post award basis, periodically test a sample of the decentralized formal and informal bid and selection files to ensure they properly document compliance with County and Department policies. In addition, the Department's Central Quality Assurance Division, as an independent third party, will conduct random reviews of



## ATTACHMENT B: OC Public Works Management Responses (continued)

Public Works and A-E Service contract files to ensure compliance with County procurement procedures.

### **B. Report No. 1225-B “Change Order and Contract Amendment Processes”**

1. Recommendation No. 1 – *“OC Public Works create and maintain a policy to identify personnel authorized to approve Change Orders and Contract Amendments. This authority should be identified on the employee’s CAPS+ ARF as “Department Head Delegated Authority.”*”

OC Public Works’ Response: Concur with recommendation. OCPW/Procurement Services will document delegated authority for approving Change Orders and Contract Amendments in order to ensure that only those individuals with appropriate authority delegated by the OCPW Department Head may execute Change Orders and Contract Amendments.

2. Recommendation No. 2 – *“OC Public Works establish the requirements and qualifications for staff assigned the primary role and retain evidence that staff assigned this role meet these qualifications in order to facilitate a subsequent review from either OCPW Administration or a third party such as Internal Audit.”*

OC Public Works’ Response: Concur with recommendation. Change Orders relating to Public Works Contracts are vetted and approved through appropriate supervisory and management levels within OCPW and are typically subject matter experts in their respective fields. OCPW will document the experience and qualifications of the employees responsible for processing Change Orders and Contract Amendments to support their technical expertise and qualifications.

3. Recommendation No. 3 – *“OC Public Works develop standardized policies, procedures and forms for processing Change Orders and Contract Amendments in all four of its Divisions, including standard forms to be used as supporting documents for all price negotiations and independent cost analyses conducted. As part of this process, we strongly recommend management research industry best practices and retain such information as support and future reference.”*

OC Public Works’ Response: Concur with recommendation. OCPW will develop a departmental policy and procedure concerning the processing of Change Orders relating to Public Works contracts and Contract Amendments and ensure that appropriate documentation supporting the Change Orders and Contract Amendments are retained in the project file.

4. Recommendation No. 4 – *“OCPW/Administrative Services evaluate providing additional monitoring and oversight of the Change Orders and Contract Amendments. This can be achieved by receiving management reports regarding the numbers, dollar value, reasons and vendor, discussing such data with Division Managers, making site visits, and performing periodic compliance reviews.”*



## ATTACHMENT B: OC Public Works Management Responses (continued)

OC Public Works' Response: Concur with recommendation. OC Public Works Central Quality Assurance will, on a post award basis, periodically test a sample of the decentralized change order files to ensure they properly document compliance with County and Department policies.

### C. Report No. 1225-C "OC Public Works Sole Source Contracts"

1. Recommendation No. 1 – *"OC Public Works ensure procedures are in place to ensure Sole Source Justification Forms are prepared and approved prior to sole source contract approval."*

OC Public Works' Response: Concur with recommendation. OCPW/Procurement will work with the Department's Central Quality Assurance Division to develop a written policy and procedure for processing sole source contracts.

2. Recommendation No. 2 – *"OC Public Works ensure that sole source justification is clearly explained for researching and comparing vendor's prices or fees to determine if they are offered within market guidelines for comparable services and supplies."*

OC Public Works' Response: Concur with recommendation. OCPW/Procurement will ensure that sole source justifications include quotes for similar services where available or provide additional explanation in the contract file.

3. Recommendation No. 3 – *"OC Public Works evaluate converting their existing manual Authorized Signature Lists for sole source authorization to the CAPS+ Access Request Forms, and establish policies and procedures to update the Access Request Forms in a timely manner when an employee's duties and responsibilities change."*

OC Public Works' Response: Concur with Recommendation. OCPW is in the process of converting the existing *Authorized Signature Lists* to the *CAPS+ Access Request Forms*. As staffing changes or changes in responsibilities occur, *CAPS+ Access Request Forms* will be updated timely.

4. Recommendation No. 4 – *"OC Public Works establish policies and procedures to ensure contracts exceeding \$50,000 are properly forwarded in Bidsync for County Procurement Office approval."*

OC Public Works' Response: Concur with Recommendation. County policy requires that all Sole Source Contracts exceeding \$50,000 be reviewed and approved by the County Procurement Office prior to submittal to the Board of Supervisors. The Purchasing Staff attend regular purchasing trainings and Best Practice Meetings provided by the County Procurement Office. In addition, a copy of the *Contract Policy Manual (2012)* has been provided to each purchasing staff member and the specific sole source policy discussed.

cc: Mary Fitzgerald, Deputy Director, Administrative Services  
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Theresa Stanberry, County Executive Office