



PURCHASING AND CONTRACTING

Internal Audit Report

County of Sacramento, California

Submitted By

Eide Bailly LLP

April 22, 2021

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Executive Summary

Eide Bailly LLP has performed an internal audit over the County's purchasing and contracting processes for the Fiscal Year 2020. We performed procedures to assess whether the County has policies, systems, and controls in place to enable transparent, efficient and effective procurement activities that are reflective of internal policies and other regulatory requirements. The results of this audit indicate that overall, the County's controls for the procurement of goods and services are properly designed and applied to ensure that procurement activities are performed in compliance with relevant policies and requirements.

As part of our review, we did not discover any significant errors or indications of misappropriation of County assets. Mechanisms appear to be in place to help ensure compliance with the County's procurement requirements and practices. However, there are opportunities to strengthen the County's processes and internal controls over the various purchasing and procurement transactions. As a result of our review, we have identified five (5) Findings and offer eight (8) recommendations where improvements can be implemented to further enhance the County's purchasing and contracting functions and internal controls.

During the internal audit, it was noted that County personnel staff were very knowledgeable about their processes and procedures and attentive to any improvements that may be needed.

Objective & Scope

The objective of this internal audit was to review internal controls to determine their effectiveness in ensuring the accuracy and completeness of purchasing and contracting information and compliance with County-wide policies, procedures and regulatory requirements. The scope of our audit was for purchasing and contracting activities recorded within the fiscal year ended June 30, 2020.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain enough, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Methodology

Procedures performed during this internal audit included the following:

- Reviewed the County's *Risk Assessment Study and Audit Plan*, which identifies and assesses various risks and their potential impact on the County
- Met with County management, staff and key personnel to discuss existing policies, processes and procedures surrounding contracting, purchasing, internal billing and similar areas
- Reviewed the County Purchasing Code, County Charter, relevant laws and regulations, written policies and procedures and other documents available related to the County's contracting and purchasing programs
- Performed detailed testing over a sample of contracts and purchase agreements and underlying contract activity to ensure they are properly documented and in compliance with County policies and relevant laws and regulations
- Reviewed user work-roles, system access controls and responsibilities for appropriate segregation of duties within the system supporting contracting and purchasing
- Reviewed fleet billing procedures including rental and fuel charges billed to various departments

Background

The objectives of the procurement and contracting functions within the County are to provide the most effective delivery of essential products and services providing for competition and fairness, while resulting in the best value and best return on investment of the tax dollar.

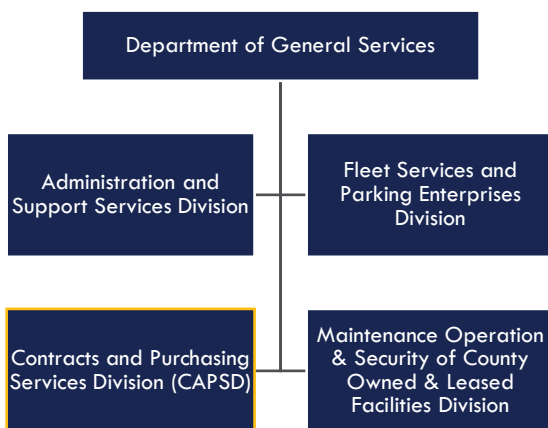
For procurement and contracting activities, the County operates under both centralized and decentralized systems based on the nature of the purchase. The procurement of goods and services is a collective effort among several County departments and individuals who perform certain duties of the overall process:

- The **Department of General Services** provides centralized services including purchasing, contracting and support services, and fleet management services to assist county departments in ensuring their daily operations can be accomplished, and missions achieved. The Contracts and Purchasing Services Division (CAPSD) of the Department of General Services is responsible for the central purchasing and procurement of materials, supplies, products and services used by the County. CAPSD administers the competitive solicitation process for certain purchases of goods and services and approves purchase orders and contracts. The Fleet Services Division manages the acquisition, repair, and maintenance for the County’s vehicle and equipment fleet.
- The **Auditor-Controller Division** of the Department of Finance is responsible for all central financial County processes related to purchasing. Functions of the Division related to purchasing include (but are not limited to): maintenance of the vendor payment file and records, processing vendor payments based on invoices approved by the respective departments, and releasing (approving) certain contracts in the County’s information system (COMPASS) before payments are made to the vendor.
- **Operating Departments** are responsible for creating purchase requisitions as needs are determined, assisting with development of bid specifications and evaluation criteria, ordering and receiving goods and services on established contracts, monitoring contractor performance, approving invoices and initiating the invoice payment process.

The County’s overall procurement process is organized into two different frameworks under which contracts are procured: **PURA** and **PURB**. The Centralized method of purchasing, as well as certain delegated small purchasing programs (Delegated Purchase Orders and Procurement P-cards), are referred to as PURA and fall under the authority of the centralized Contracts and Purchasing Services Division (CAPSD). Contracts and other purchase agreements that are initiated and administered in a decentralized manner at the department level, outside of the purview of CAPSD, are referred to as PURB Contracts.

Contracts and Purchasing Services Division (“PURA”)

The Contracts and Purchasing Services Division (CAPSD) of the Department of General Services provides centralized purchasing services and assistance for County departments for goods and services.



All purchases made through CAPSD are required to be in accordance with the laws, rules and regulations set forth in Chapter 2.56 of the Sacramento County Code (the County’s Purchasing Agent), the Section 45 of the County Charter, and applicable state and federal regulations. Generally, CAPSD purchases over \$100,000 are required to be procured through formal competitive solicitation unless meeting certain exceptions. The division is managed by the purchasing agent, whose authority is granted and assigned under Section 45 of the County Charter and the Section 2.56 of Title 2 of Sacramento County Code. The division is organized into 3 teams: 1) Administration and Social Services Team, 2) Construction and Public Works Team and 3) General Administration for the Division.

Contracts and purchase orders issued by CAPSD during FY2019/20 totaled 1,198. This is slightly lower than the 1,238 average number of contracts and purchase orders issued during the previous five fiscal years. The division has a total of 19 budgeted FTEs in FY2020, consisting of the purchasing agent, contract services managers, officers and a specialist. Staffing levels have also remained relatively consistent from year to year. The average budgeted number of FTEs for the past five fiscal years is 18.

The materials management module of COMPASS is utilized by CAPSD and various departments to complete PURA purchasing transactions. When a using department has a need for a good or service, the department will create and release (approve) a purchase requisition into the COMPASS system. The purchase requisition is assigned to contracting staff within CAPSD who will determine the procurement method and facilitate the selection of a vendor, as well as establish and approve the contract within COMPASS. The departments will then enter orders against the established contract (Contract Shipping Order) in COMPASS which are also released (approved) at the department level. When the ordered items are delivered to the County, the department receiver enters the items into a COMPASS 'Goods Receipt', and submits the invoice received to the County's central finance department for payment processing. Upon receipt of the invoice, the Department of Finance will enter an 'invoice receipt' within COMAPSS and initiate the processing of payment to the vendor. The contract/purchase order, goods receipt, and invoice receipt are performed by separate departments within the County as noted above. COMPASS will match these three items (contract/purchase order, goods receipt, invoice receipt) to ensure that they agree and confirm the payment amount is correct. Any discrepancies must be resolved before the payment can be authorized for processing.

PURA Delegated Purchase Programs (Small Purchases)

The Purchasing Agent delegates authority to certain department individuals to make small dollar purchases through the delegated purchase program or through use of a procurement card.

- *Delegated Purchase Orders:* Authority for certain low dollar purchases under \$5,000 is delegated to employees of ordering departments (department designated buyers) through the Delegated Purchase Order program once they complete required training. Purchases between \$2,500 and \$5,000 require three quotations per County policies. The Contract and Purchasing Services Division of the County reviews the DPOs against the appropriate quotation record and compliance with County policy. The Purchases under this method are referred to as Delegated Purchase Orders (DPO).
- *Procurement Cards:* The County procurement card (Pcard) may be used in lieu of a DPO for purchases of \$2,500 or less. Monthly statements and summarized procurement logs are reviewed and certified by approving officials. The County maintains centralized policies and procedures for the appropriate use of Pcards, required approvals and reconciliations

Decentralized / Delegated Contracting ("PURB")

Section 2.61 of the County Code delegates contracting authority to county officials, outside of the central purchasing division (CAPSD), for certain types of contracts, establishes limits of authority for each county department, and provides guidance for the procurement process. The County's decentralized system of procurement is referred to as "PURB" contracting. Under the PURB process, individual departments are ultimately responsible for the contract processes from inception to conclusion.

The PURB contract process starts with the Department's identification of the need for a service. The Department will determine the scope of work, solicit proposals, and select the vendor for contract award. If the department director has delegated authority under section 2.61 of the County Code, the Director will execute the contract, otherwise it must be submitted to the Board for approval. The contract is entered into COMPASS by the department and approved (released) at the department level. The contract information is provided to the Department of Finance who will review the contract and also approve (release) the Contract in COMPASS. The departments will then enter orders against the established contract (Contract Shipping Order) in COMPASS which are also approved (released) at the department level. Once the contractual services and invoices are received at the department, the invoice is approved and forwarded to the Department of Finance for payment processing similar to the PURA process noted above.

Fleet Services Division Internal Billing

The department of General Services’ Fleet Services Division manages the County’s automotive fleet programs, which service and maintain automotive vehicles and equipment required by using County departments. Departments that utilize a designated county vehicle are charged a regular fixed monthly cost that is included in the County’s annual allocated cost package. Fuel costs are billed directly to users each month based on actual usage at county fuel stations. The fleet services division also administers the fuel station key fob and gas card processes, which departments utilize for travel purposes as well as to fuel county owned vehicles at county stations.

Audit Findings and Recommendations

Overall, we found evidence to confirm an effective purchasing system was in place and there were reasonable controls and segregation of duties in operation to manage the contracting and purchase process. However, we noted the following findings that the County should consider strengthening internal controls and effectiveness of the purchasing and contracting processes.

Finding #1: Procurement Policies and Procedures

Many procurement policies and procedures are inconsistent and out of date.

In addition to the purchasing requirements set in the Sacramento County Code and Charter, the County has several written policies and guidelines available to assist contracting officers and employees in completing purchase requests and contracting activities.

Significant policies and procedures related to the County’s procurement and contracting processes include:

Policy 2101 - County Purchasing Policy	County Policy 2101 reinforces that purchases through CAPSD shall be made pursuant to competitive solicitation (bids, proposals, etc.) as applicable. The purchasing policy refers the user to the Contracts Manual, Purchasing Procedures and Guidelines, and the Introduction to Contract and Purchasing Services Division Guide for specific requirements and procedures for purchases of goods and services.
Purchasing Procedures and Guidelines	The Purchasing Procedures and Guidelines includes overview of delegated authority (for smaller purchases), exception to bid (ETB) process, overview of the contract and purchases and services division, contract award protests, and guidelines for specific types of purchases such as environmental and retroactive purchases. The Purchasing Procedures and Guidline refers the user to the Buyer’s Guide for more detailed explanation of the contents.
Contracts Manual	The Contracts manual, developed by County Counsel, details pertinent information related to contracts including the definition and types of contracts, role of county counsel, auditor, risk manager, & purchasing agent, delegated authority for contracts, public works contracts, competitive selection process for contracts, and more.
Introduction to Contract and Purchasing Services Division	The purpose of the guide is to provide an overview of the services that CAPSD provides to using departments related to contracting and purchasing. It includes overview of purchasing authority, organizational structure, delegation of authority, overview of the requisition and purchasing cycle, competitive solicitations, are more.
Buyer’s Guide	The Contract & Purchasing Services Division (CAPSD) Buyer’s Guide is specifically designed for Contract Service Officers. The Buyer’s guide is CAPSD’s comprehensive manual and includes information such as standard operating procedures, purchasing authority levels, process flowcharts, ethics and conflict of interest rules.
Procedural Guidelines for Public Works Contracting	The procedural guidelines includes an overview of the specific laws and regulations and procedures to be followed related to contracting for public works projects.

The policies and manuals provide information on delegations of authority, procurement mechanisms that can be utilized to fulfill purchase requisitions, and various other procurement activities as detailed above. The policies and procedures are available county-wide on the County’s intranet site. The County has also developed various checklists, forms, and other documents to aid employees when making purchasing decisions.

Opportunities exist to update the procurement policies and procedures to reflect current processes in place. There are inconsistencies in authority and threshold levels between the various purchasing documents. For example, we noted the following per inspection and review of the policies and procedures:

- The County buyers guide is a large document, currently at 930 pages as of the date of the audit. Certain sections of the buyer's guide are dated as far back as 20 years prior, indicating that these areas have not been updated regularly.
- There are references in the Buyer's Guide as well as Policy 2101 (County Purchasing Policy) to purchasing programs and methods of purchasing that are no longer in use at the County, such as the Department Field Order (DFO) and the Limited Purchase Order (LPO) programs.
- There are inconsistent thresholds noted between the various purchasing policies, procedures, and guidelines. For example:
 - The Contract Manual notes that contracts with a services component over \$100,000 require board approval, however the current threshold is \$200,000.
 - The Buyer's guide includes excerpts from section 2.56 of the County code, however the code sections included in the guide are not current. One section included notes that the threshold for competitive solicitation is \$10,000 and the purchasing agent's authority is \$100,000 for services, however these thresholds are currently set at \$100,000 and \$200,000 respectively.

Recommendations

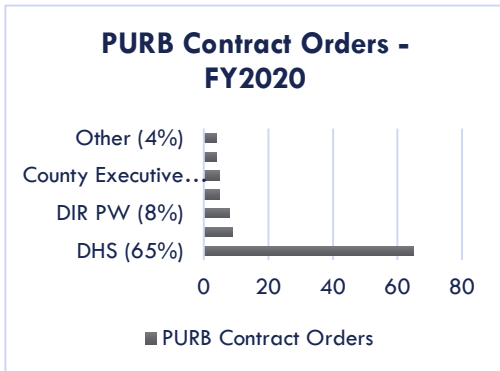
#1.1 The County's procurement policies and procedures should be updated regularly to reflect current practices. The County should perform a comprehensive review of current written policies and procedures in place to ensure that they are uniform, and information included within these documents is relevant and up to date. By not making it a practice to continuously review and update written policies, procedures, and guidelines, the County is at risk of provided outdated information which could impact and influence the decisions of those in purchasing roles. The County should also consider consolidating and condensing policies and procedures, notably the Buyer's Guide, into smaller more concise guidance to avoid the risk of inconsistencies, duplication and conflicting guidance.

Management Response

Although we have earmarked for an annual review of the documentation, for the past several years this has not been accomplished. CAPSD is currently in the process of reviewing and updating our documentation. In addition to updating the documentation, we have also changed the way the information is presented (previously a 900 plus page PDF file that was extremely difficult to manage and update) to a dynamic website. This has made the information easier to review and maintain on a regular basis. Since the guide consists of twelve sections, we are reviewing one section each month, to ensure the entire guide is reviewed annually.

Finding #2: Decentralized Nature of County Procurement and Related Oversight

The County's procurement and contracting structure is a hybrid model consisting of centralized and decentralized functions. Under this structure, the Contracting and Purchasing Services Division (CAPSD) handles centralized procurement and contracting activities for goods and services (PURA contracts), while departments have the flexibility to administer professional services contracting activities independently (PURB contracts). The Board of Supervisors and the Purchasing Agent (within CAPSD) have the authority to execute agreements, as well as certain county officers that have been delegated contracting authority.



Section 2.61 of the County Code delegates contracting authority to a wide range of county officers for PURB contracts. These contracts are developed and administered in a decentralized manner throughout the County. The delegated authority allows departments to prepare their own bid specifications, issue and evaluate bids, recommend contracts of awards, and perform the on-going contract management functions. The underlying contract files and documentation supporting the history of procurement for PURB contracts is retained in the various departments throughout the County. In FY2020, there were approximately \$420M in orders against PURB contracts across various departments throughout the County.

There are many sources of county purchasing policy, including the County Code, Policy 2101 – County Purchasing Policy, Purchasing Procedures and Guidelines, the contracts manual, the Buyer’s Guide, Procedural Guidelines for Public Works Contracting. It is not always clear which of the County policies, if any, departments should follow for contracting and administration of decentralized PURB contracts and purchases. The County’s central written policies and procedures, such as the purchasing policy, buyer’s guide, and purchasing procedures and guidelines appear to be directed towards the County’s centralized Contracts and Purchasing Service Division (CAPSD), whose authority is outlined by section 2.56 of the County Code. The County’s Contract Manual does note that department contracts estimated to exceed \$100,000 require a formal competitive process. Exceptions require submitting an exception to bid form (ETB) by the departments to the County Purchasing Agent for approval. However, it appears this is a self-reported function and level of oversight. For example, if an exception to bid form was not completed as required for an applicable purchase, it does not appear there are controls in place to detect these instances of non-compliance. Ultimately the departments are not accountable for PURB contracts outside of themselves.

Some departments that have a significant amount of PURB activity have developed departmental standard operating procedures, guidelines, and policies. However, it does not appear that there is an independent review of these departmental policies to ensure that they are consistent with CAPSD policies, County best practices, and relevant federal and state regulations regarding procurement as applicable. Also, there is no specific a requirement or guidance directed at departments to develop policies and procedures for administering decentralized purchasing contracts. This had led to variations in the processes and contracting methods utilized between the departments under the decentralized model and the central CAPSD policies and procedures. For example, under this decentralized PURB method of contracting, departments hold the responsibility in ensuring that the proper procurement method is utilized and administered for selecting a contractor or vendor. The Department of Health Services (DHS), which is the department that incurs the largest volume and dollar amount of PURB contracting activity, has developed a policy that requires a formal competitive solicitation process every 5 years for contracts with the same services and vendor over \$100,000. This is not consistent with CAPSD policies, where the competitive standard and threshold followed by CAPSD is to competitively bid each new contract over \$100,000.

While the variations and tailoring noted in departments’ policies may be reasonable due to the nature and context of each department’s contracts, the County should consider an oversight mechanism to ensure that the procedures and policies followed for PURB contracts are in line with the County’s overall objectives related to contracting and procurement. As there may be a business need for departments to have delegated approval authority in contracting, as exemplified by section 2.61 of the County code and the complicated nature of certain PURB contracts, the County should consider developing a basic and independent system of oversight ensure that PURB contracts are being procured and managed appropriately. A well-defined baseline of procurement standards should be developed for PURB contracts to provide department guidance and accountability. It is noted that an independent and documented review of PURB contracts is performed by the central Department of Finance prior to finalizing the contract entry and contract document within COMPASS. Per discussion with Department of Finance Staff, the objective of this review is to ensure that the contracts were approved properly in accordance with the County code (i.e. approved by the proper delegated authority or the Board when required). While this is a strong control in place to verify that contracts were properly approved, the method of procurement and contractor selection is not included within this review. The County should develop and promote basic county-wide standards and guidance for decentralized PURB contracts and establish documented procedures related to the procurement method, document retention, management and monitoring of these contracts, as well as regular review of department policies to verify they are meeting the County’s purchasing missions.

Recommendations

#2.1 Opportunities exist for the County to establish a framework and system of oversight for decentralized PURB contracts. There does not appear to be clear guidelines or monitoring procedures over the procurement method and vehicle utilized by the PURB contracting departments as well as on-going contract management and administration. Due to the number of departments and personnel involved in the PURB contracting and procurement process, as well as the substantial amount of funds that flow through these contracts throughout the year, the County should establish and promote structured and uniform procedures and county-wide policies for procurement, contract management and administration of PURB contracts. This can include independent reviews of department-level developed PURB policies, if any, to ensure they are in conformity with County purchasing objectives as well as federal and state regulations related to procurement activities.

Management Response

Several discussions about having the Purchasing Agent provide central oversight and or review for PURB contracting, processes and procedures have occurred in recent years. An informal group (called the Contracting Officers Forum) used to meet to discuss contracting policies, procedures, guidelines, and exchange ideas. The group consisted of key staff from CAPSD, departments issuing PURB contracts and County Counsel. We are currently working to re-launch this team in 2021. The Purchasing Agent will facilitate the group. Although the Purchasing Agent is not responsible for the oversight and or review for department contracting, processes and procedures, the formation of this group should help provide some guidance and is a step forward to ensuring structured and uniform procedures and county-wide policies for procurement, contract management and administration.

Finding #3: Procurement File Documentation and Compliance with County Procurement Policies

We selected a sample of 40 PURA and 40 PURB purchasing contracts and purchase orders to test the County’s compliance with policies and procedures. As part of our testing, we reviewed the contract files and applicable supporting documentation including (but not limited to):

- Purchase requisitions and proper approval,
- Contract orders and proper approval,
- Bid files, quotes and other solicitation support,
- Evaluation and scoring of proposals,
- Purchase orders and documents and proper approval,
- Invoices and payments made and proper approval,
- The presence of other documentation and compliance required based on the characteristics and nature of the contracts

We noted the following:

- We noted instances of incomplete or missing documentation from the contract file. For example, we noted the following situations where certain required contract file information could not be located or was not fully completed:
 - *Six (6) instances where the contract files did not have the signed Evaluation Committee Rules of Conduct and the Evaluation Committee Conflict of Interest Statement.* These forms serve as guidelines provided to the proposal evaluation committees to ensure they have an adequate understanding of the evaluation process and associated rules. The evaluator certifies that serving as a participant on the committee does not create or present a conflict of interest. These forms serve to ensure that evaluations of proposals are fair, objective and free from bias.
 - *One (1) instance where the original contract was not maintained or could not be located and five (5) instances where the contract does not have vendor signature.* Per the County’s buyer guide that if a contract or purchase order contains services, dual signatures (of County purchasing as well as the vendor) are required to fully execute the document.
 - *One (1) Exception to Bid form was signed and approved by the contract services officer but was not signed by the purchasing agent or contract services manager.* The Exception to Bid form is required to be signed by the purchasing agent or contract services manager if the purchase is anticipated to exceed \$100,000.

- *Ten (10) instances where the contractor's evidence of insurance (or renewal) was not maintained or could not be located.*

For some of the missing documents noted above, per discussions with purchasing staff it was noted that the contract files were initially the responsibility of staff who have previously retired. The staff members who have separated from the County did not adequately file and maintain the information prior to the separation and consequently the requested documents could not be located.

In some cases, the County reached out to the respective vendor to obtain the requested documentation as it could not be located within the County's files. It was also noted that during our testing that contract information is held within multiple locations throughout the County and through various methods, mainly due to the decentralized nature of PURB contracts. For instance, some departments maintained physical contract files, some held electronic files on network drives or within the County's file-net system, some contract documents are scanned directly into COMPASS, while some departments had a combination of different systems.

While all contracting files may not require the same level of documentation, at a minimum the contract files should include enough information in order to support accountability and transparency. As a rule, contract files should hold all documentation required in order to reasonably reconstruct the history of procurement and demonstrate compliance with policies and procedures.

The County should consider developing a tool, such as a checklist, that would clearly and reasonably detail the relevant documentation and forms required to be included in each contract file depending on the circumstances and characteristics of the contract. This tool should also detail the appropriate signatures and approvals required to be obtained for each document as applicable to serve as a quick reference guide for purchasing staff County-wide.

- A review of the contracts tested identified instances where it appeared the contract or underlying procurement process for the contract did not fully adhere to certain compliance requirements outlined by County policies:
 - *Contract exceeded allowable term required by County policies and County code.* One (1) PURA contract was extended to a total term of four years. The selected contract had a maximum term of three years; however, the contract was extended to a fourth year. Per the County's policies and the County code, contracts under the purchasing agent are to be for a maximum of 3 years, with an allowable additional extension of 6 months to be utilized in rare cases. Contracts exceeding 3 years are required to be approved by the Board.
 - *There were instances of contracts that did not appear to fully support competition consistent with County Policies and objectives.*
 - For two (2) PURB contracts selected, documents related to competitive solicitations performed in 2014 were provided as support for the underlying procurement methods of the contracts. However, the start date of the contracts selected was 7/1/2019, approximately 5-6 years after the original solicitation was performed in 2014. It was noted that County was renewing the contract annually without going through an additional competitive solicitation process or preparing an exception to bid (ETB).
 - For One (1) PURB contract selected, an exception to bid (ETB) form completed in 2014 was provided as support for the vendor selection for the contract. However, the term of the contract selected was 7/1/2019 – 6/30/2020, approximately 5-6 years after the original ETB form was completed and filed in 2014. It was noted that County was renewing the contract annually without preparing updated ETB forms or going through a competitive solicitation process.

Due to the resources and time required, it may not be feasible to provide a secondary quality control review and monitoring of every contract that is executed at the County during the year. However, the County should consider developing regular, documented, and independent quality control reviews of samples of PURA and PURB contracts county-wide. The objective of these reviews should be to ensure that the appropriate procurement vehicle and process was administered for the contract, as well as verifying that all required contract documentation and compliance is being met accordingly. Having these reviews in place would further enhance a system of accountability and oversight over contracts to ensure the County is meeting its contracting objectives.

Recommendations:

#3.1 The County should establish and implement countywide standardized contract file content controls to ensure completeness of information maintained in each contract file. For example, the County could develop a comprehensive contract documentation checklist that details pertinent forms, documentation, and approvals that are required to be maintained in the files, depending on the type of contract. This would ensure consistency in the basic documentation and approvals required to be maintained in order to demonstrate compliance as well as reconstruct procurement history for the related contract. All contract files should be assembled and maintained according to the checklist document to allow for a basic system of standardization and accessibility to the files when needed.

Management Response

CAPSD will develop a contract execution checklist by July 2021 to ensure all necessary documentation is included and stored in the appropriate place.

#3.2 The County should consider developing a system of quality control and self-assessment reviews of contract files county-wide to ensure all information is included, as well as to verify appropriate maintenance of contract files and all other pertinent documentation. The objective of these secondary reviews should also incorporate an evaluation of the contract, including procurement methods and other requirements, to ensure that the County is meeting all compliance required by County, State, and Federal regulations as applicable.

Management Response

CAPSD will develop a self-assessment review process by July 2022 for CAPSD contract files to ensure compliance will procedures and all regulations. This self-assessment can be made available to other departments processing PURB contracts to use and/or modify to meet their needs.

Finding #4: Adequate Number of Sources for Solicitations

Per the County's purchasing policies, procurement activities are to be conducted in an open and fair environment that promotes competition among prospective vendors. The challenge with any procurement system is to develop policies that are flexible enough to meet the business needs of the organization, but also ensure fairness, openness and transparency. Per Section 2.56.250 of the County code, the following types of purchases are exempt from formal competitive proposal or solicitation:

- When the aggregate or cumulative price to be paid under the purchase contract is one hundred thousand dollars (\$100,000.00) or less, unless otherwise required by State law;
- When a patented or proprietary item is being purchased; or
- In the event of an emergency; or
- When the following types of personal property or services are being acquired, obtained, rented or leased: (1) advertising, (2) books, recordings, motion picture films, subscriptions, (3) election supplies, (4) insurance, (5) public utility services, (6) travel services, (7) property or services provided by or through other governmental agencies, or obtainable from suppliers which have in force a current contract with another governmental agency for the same item or service, or (8) property or services, the price of which is fixed by law; or
- When the purchasing agent determines that making of a purchase without competitive proposals is reasonably necessary for the conduct of County business. (SCC 1545 § 2, 2014; SCC 1127 § 1, 1999; SCC 594 § 2, 1984.)

While formal competitive proposals and solicitations are generally not required for County purchases under \$100,000, it was noted per discussions with management that contracting service officers within CAPSD have discretion and utilize judgement in selecting the best procurement vehicle and method for smaller purchases. Per the Buyer's guide, if a purchase is anticipated to be less than \$100,000, an informal request for quotations (RFQ) or negotiation process is suggested as possible methods to conduct the purchase and select a vendor. However, it is not clearly specified in County policies and procedures the number of quotes that are required to be obtained or the procedures and documentation required to be retained when performing negotiations. As County policies and procedures do not clearly define these elements, in practice the method utilized, and number of quotes obtained, appear to vary from purchase to purchase.

From a sample of procurement transactions and review of supporting documentation (the sample indicated in Finding #3), we noted there were instances identified where only one quote was obtained from a single vendor to conduct a purchase under \$100,000. While these are not considered to be instances of non-compliance, as county policies do not specify the number of quotes to be obtained for informal solicitations, the County should consider updating policies and procedures to define and address what is considered an adequate number of sources with the best practice being to obtain more than one quote. While obtaining one quote from a qualified vendor for a \$10,000 purchase may seem adequate, that might not be considered adequate or sufficient for a purchase of \$90,000. If only one quote was obtained or negotiations performed, it should be documented in the procurement file as to why this is considered adequate and conducive to obtaining the best value and lowest cost for the County.

For certain types of purchases, the County may be required by law or regulations to maintain documentation and justification regarding the number of sources to be obtained even if the purchase is below the County's \$100,000 formal competitive threshold requirement. For example, for purchases that are made with federal funding sources, the County is required to follow the regulations set forth in the Federal Uniform Guidance (2 CFR 200) regarding procurement activities. The Uniform Guidance requires that for small purchases, price or rate quotations must be obtained from an adequate number of qualified sources as determined appropriate by the non-federal entity (§200.320).

Instances were also identified where a formal competitive procurement vehicle and process was utilized for purchases over \$100,000, as required by County policies, however only one response or proposal was received. On page 810 of 930, the County's Buyer's Guide does note that "*the general practice in public purchasing is that more than one response is required, with three or more responses usually adequate. One response may be deemed non-competitive if more responses should or could have been solicited or received*". The County should also define what is considered an adequate number of responses and sources for formal solicitations, as the receipt of one response could be perceived as non-competitive. If one response is received, the County should consider documenting why receiving one response is still considered a competitive negotiation and that the solicitation was not restrictive to limit competition.

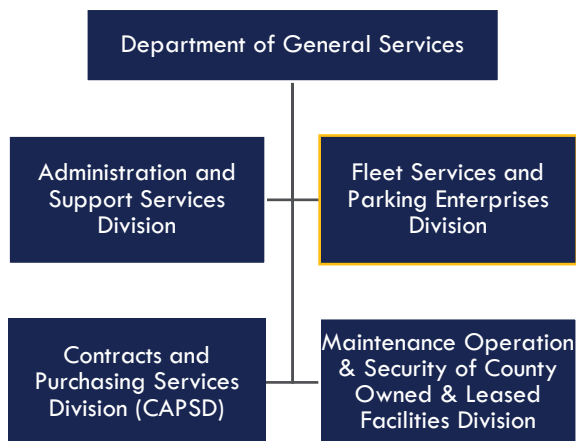
Recommendations

#4.1 Opportunities exist to clarify and formalize best practices regarding the adequate number of sources required for formal and informal solicitations. The County's policies and procedures should clearly address what is considered an adequate number of sources and should include the relevant guidelines within purchasing procedures and policies. It is also recommended to develop standard procedures regarding documentation and justification when only one proposal or response is received. This will ensure consistency across purchases, as well as compliance with relevant Federal, State, and County policies. Standardization regarding the adequate number of sources will also be conducive to the County receiving the best value at the lowest cost and continuing to provide a history of justification for vendor selection. If responses are not received from an adequate number of sources, the County should also consider preparing an Exception to Bid (ETB) to support the vendor selection.

Management Response

CAPSD will update our documentation by July 2021 to provide clarification and guidance on how to determine that adequate competition is obtained and what to do when it is not achieved.

Finding #5 – Formalization of Fleet Management Fuel Processes, Procedures and Internal Controls



The Fleet services division of the Department of General Services rents light and heavy equipment and manages the acquisition and maintenance for 3,200 fleet vehicles and equipment.

Departments that utilize a designated County vehicle are charged for use of the vehicle through a regular, monthly fixed cost. This cost is determined by the recovery of maintenance, acquisition, facility costs, and administrative and support costs. The fixed cost rate is calculated approximately a year in advance and is provided to the various departments to assist them in preparing their annual budgets. The rates are defined and determined by vehicle class. The departments also incur a monthly fuel charge that is based on the actual fuel usage of the vehicle.

County Fuel Station Key Fobs

County departments consumed approximately 1.5 million gallons of fuel across 2,500 different vehicles in Fiscal Year 2020. Related County fuel expenses exceeded \$4.5 million during the same time period. There are approximately 8 fueling stations throughout the County where departments can fuel departmental vehicles. The Fleet Focus M5 Software System by Assetworks (M5) is utilized by the Fleet Services Division to manage fuel operations throughout the County.

A key fob is issued along with each vehicle to the using department in order pump fuel from the County’s stations. Employees of the Fleet Services Division establish the setup, issuance and tracking of physical key fobs through the M5 software system. The key fobs are programmed within M5 and linked to a specific vehicle, which enables the County to track fuel transactions incurred by each vehicle. In order to pump the gas at a fueling station, employees waive the key fob in front of the pumping station. Once the key fob has been recognized, the employee will enter the odometer reading of the vehicle into the pumping station. After the mileage has been entered, the employee will dispense the fuel and the fuel transaction (including date, time and amount of fuel pumped) is recorded in the M5 system for the vehicle. Each month, these fuel data transactions from M5 are uploaded into COMPASS and the fuel usage is directly charged to the Fund and Cost Center that is responsible for the particular vehicle.

While each key fob is linked to a vehicle within the M5 software system, it is noted that there is no mechanism in place to physically restrict the pumping of gas to the designated county vehicle assigned to the key fob. As such, there inherently exists a risk that the key fobs could be used inappropriately or for non-county vehicles such as fueling personal vehicles.

According to Fleet Services Division personnel, the review of fuel charges is the responsibility of management of the using department. Currently, it is incumbent on the management of the using departments to determine what level of monitoring over the fuel transactions is necessary. Detailed reports from the M5 system can be generated which would indicate the date and time of entry, amount of fuel pumped and odometer readings for a certain period, such as on a monthly basis. However, the using departments do not have access to the system and consequently the reporting mechanisms within the system. Occasionally the reports are provided by the Fleet Services Division to the departments when requested.

Gas Credit Cards

The Fleet Services Division also issues gas credit cards to designated departments for travel purposes. At the time of the audit, the fleet services division currently has a total of 174 cards issued to various departments and 8 cards for use at the County’s motor pool locations, where employees can check out cars for a short term/daily basis and use the cards for travel purposes. The Fleet Services Division tracks the number of cards issued on a monthly basis and maintains a schedule of how many cards are in use as well as the designated department administrator for each card. Cards are not issued to a specific employee or vehicle but are issued to the Department for use and are released only to the department administrator of the cards. Actions such as deactivation of cards, replacement of cards, and resetting locked cards is administered by Fleets Services Division as the authorized main point of contact

with the Vendor. There is a limit of \$1,000.00 per monthly cycle and a 10-transaction limit per day. The Cards are also restricted for use only at certain gas and fuel stations. The Sheriff's department also holds gas credit cards that are managed by that department outside of the department of Fleet Services Division. The Fleet Services Division will remit to each department the card statements detailing the itemized charges for each card held by the departments. It is the responsibility of each of the departments for internal card distribution, tracking and safeguarding, as well as monitoring the usage within each department.

Fuel Usage Policy (Key Fobs and Gas Credit Cards)

The County does not have a written fuel management or usage policy established to outline internal controls and related operations for the key FOBs and gas credit cards. The potential for fraud and abuse is substantial in any organization's fuel usage program. The County would benefit from enhancing and documenting internal controls surrounding the fuel usage activities in order to reduce the risk of potential fraud or abuse.

Written policies and operating procedures are essential to ensuring that management directives are communicated and understood by applicable County staff. Policies and procedures also provide the basis to determine accountability, measure results, and enforce compliance. In practice, the County's using departments are responsible for controlling and managing the key FOBs and gas cards, as well as monitoring the usage of the cards. However, there is no clear County-wide written policy or direction available regarding these requirements. The Fleet Services Division does have a Transportation Policy; however, the Policy does not provide any comprehensive guidance restrictions for fuel transactions nor does it discuss any required internal controls. It is also noted that the Transportation Policy indicates that the last revision was 11/2000, however, per the Policy itself, it should be reviewed and updated semi-annually.

The County should develop a written comprehensive fuel policy that encompasses and details internal controls surrounding the County fuel key fobs as well as the gas credit cards. A policy should be formally established and include pertinent direction, such as the following, to serve as a guide and basic standard setting for the using departments:

- Identification of the various methods to obtain fuel throughout the County and related standard operating procedures (key fobs, gas credit cards, or other)
- Roles and responsibilities of those involved in the processes
- Acceptable fuel usage restrictions (vs. unacceptable fuel usage)
- Monitoring procedures of fuel usage required to prevent personal use of fuel, including review of unusual activity and exception reporting
- The process for identifying and reporting unusual or fraudulent transactions
- The process for obtaining and replacing key fobs and gas cards
- Using departments' responsibilities, including proper review of gas card statements prior to payment
- Safeguarding / physical access controls of key fobs and gas credit cards and internal distribution

Once established, the policies should be revisited and updated regularly to ensure it is staying current and meeting the needs of the County.

Monitoring of Fuel Data and Exception Reporting

Departments that maintain key FOBS should utilize detailed fuel transaction data, such as the data from the M5 system, to monitor fuel usage. Although fuel usage information is available within the M5 system for each vehicle that is assigned a key fob, there is no specific or defined process in place for departments to monitor or review for unusual trends or patterns. As part of an established fuel monitoring process, department management can identify unusual or improper fuel usage to follow up on inconsistencies. Excessive fuel usage may be useful in identifying unauthorized vehicle usage. The Fleet Services Division should also consider the opportunity to develop and utilize exception reports from the M5 system, or utilizing M5 data, that can be provided to the departments for follow up and review. By not having a defined monitoring system in place over critical components, such as unusual fuel usage and transactions, the likelihood of fraud, waste and abuse remains a risk.

Examples of irregularities and parameters that can be identified and investigated as part of exception reporting include (but is not limited to):

- Vehicles that entered fueling stations multiple times within a day and cars that show multiple fuel transactions within a day
- Vehicles that show individual fuel transactions greater than the tank capacity
- Vehicles that have higher or lower fuel usage when compared to prior months and averages (for example, 10% increase in fuel usage compared to prior periods)
- Key fobs that are utilized during unusual times or times outside of reasonable scheduled staff time (weekends, after hours, etc.)

Eide Bailly obtained an extraction of monthly M5 fuel data for FY2020 and per inspection noted certain transactions that would be considered unusual. For example, there were:

- 91 instances where a vehicle was fueled more than three times in one day
- 24 instances where the actual fuel pumped for a certain period (month) exceed the average monthly fuel pumped for that same vehicle by 100 gallons or more

The presence of multiple, large, or other types of transactions as noted above does not necessarily indicate that improprieties exist or that fuel was improperly utilized. However, these types of transactions should be something that departments screen and review regularly to understand why they occurred.

Recommendations:

#5.1 The County should develop a comprehensive fuel policy for all using departments to follow that encompasses an effective and efficient way to monitor, track and review fuel transactions on a regular basis. Establishing a well-defined fuel monitoring process will increase accountability for departments and card users and will help deter and prevent inappropriate use.

Management Response

The Department of General Services (DGS) concurs with this recommendation. DGS will seek out information on fuel policies used by other agencies as well as industry best practices. DGS agrees to develop fuel policy and procedure documents that will apply to fuel obtained by County departments from the fuel stations that DGS operates and via the Voyager fuel credit cards for which DGS is the billing coordinator. DGS aims to complete these tasks by July 2022.

#5.2 Fuel usage data should be provided to using departments on a regular basis in an effective format in order to review transactions for unusual patterns or inconsistencies. The County should consider utilizing exception reports using M5 fuel data to easily identify those higher risk transactions that are more unusual or may represent improper use. Detailed fuel data and exception reports will assist the departments in identifying and investigating instances of unusual fuel consumption or unauthorized vehicle usage and, where necessary, take corrective actions.

Management Response

Through the use of available data, we will also seek to provide relevant monitoring reports to departments on a periodic basis starting in July 2022 for their use in identifying any inappropriate or questionable fuel usage.

Review of the 91 noted instances where a vehicle was fueled more than three times on the same day shows that 44% resulted from user problems or false starts during fueling that resulted in multiple transactions for the same fuel stop; 23% resulted from trucks with several low-quantity fuelings with compressed natural gas (CNG), which is not commonly available elsewhere; 18% resulted from necessary test transactions during inspection or after servicing of fuel stations; and the remaining 15% had other reasonable explanations (fueling trucks, Sheriff patrol vehicles, road repair equipment).

Review of the 24 noted instances of the vehicle's total fuel issued in one month exceeding the auditor's calculated monthly average by 100 gallons or more, shows that 22 instances were for vehicles readily identifiable as assigned to operations with seasonal work that would result in noticeable variations in monthly fuel usage.

#5.3 Per the County's transportation policy, the policy itself should be reviewed and updated semi-annually, however the last revision date per the Policy is 11/2000. The County should ensure that the policy is updated accordingly to remain in compliance as well as to ensure that it is reflecting current practices, procedures, and programs in place.

Management Response

The Department of General Services (DGS) concurs with this recommendation and has actively sought in recent years to update and make revision to the Policy. In spite of this effort, there has been no success in taking a revised policy to the Board of Supervisors (BOS) for required approval. DGS will make a renewed effort to seek BOS approval during 2021.



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