

AUDITOR-CONTROLLER/ TREASURER/TAX COLLECTOR



COUNTY OF SAN BERNARDINO

- 222 West Hospitality Lane, Fourth Floor
San Bernardino, CA 92415-0018 • (909) 387-8322 • Fax (909) 386-8830
- 172 West Third Street, First Floor
San Bernardino, CA 92415-0360 • (909) 387-8308 • Fax (909) 387-6716

LARRY WALKER
Auditor-Controller/
Treasurer/Tax Collector

February 10, 2012

Mary Jane Olhasso, Agency Administrator
Economic Development Agency
San Bernardino County Government Center
385 North Arrowhead Ave, 3rd floor
San Bernardino, CA 92415-0043

SUBJECT: ECONOMIC DEVELOPMENT AGENCY'S PROCUREMENT PRACTICES AUDIT

Introductory Remarks, Objectives, Scope and Methodology

In compliance with Article V, Section 6, of the San Bernardino County Charter and the Board of Supervisor's Policy Statement on Internal Operational Auditing, we have completed an audit of the Economic Development Agency's (EDA) procurement practices. Our audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing established by the Institute of Internal Auditors.

EDA contracts for goods and services such as consulting studies, marketing services, educational services, sponsorships and travel agency/tour services. At the time of the audit, 75% of the contracts were non-competitive and five departmental employees held County procurement cards (CalCards) to make small dollar purchases.

Our objective was to evaluate the department's internal controls and compliance with county policies regarding procurement using contracts and CalCards. The audit period was July 1, 2008 through March 31, 2010. Our methodology included inquiries of management and staff, reviewing the appropriate manuals and county policies, and testing relevant source documents. Our audit did not include procurement transactions from May 17, 2010 to the date of our report during which the current EDA Agency Administrator has been in the position; therefore, the findings noted in this report did not occur under the current administration.

Conclusion

As a result of our analyses and tests performed, we concluded that the department did not always follow several of the County's policies for contract and CalCard procurement. We have listed these items and our recommendations for improvement in the Findings and Recommendations section of this report.

Findings and Recommendations

Finding 1: Compliance with the County's contract procurement policy needs improvement

Per County Policy 11-04—*Procurement of Goods, Policies and Equipment* and Policy 11-05—*Procurement of Services*, departments are required to comply with the County's Procurement Manual (Manual) to ensure that the same open and competitive procurement process is maintained throughout the County and that taxpayer's funds are used prudently. Our audit disclosed several incidents in which the department did not comply with the Manual. The following exceptions were identified:

- Project managers did not always receive the required minimum of 3 bids prior to their selection of contract vendors
- There were inadequate justifications for sole source and other non-competitive contracts. 38 out of 46 non-competitive contracts tested did not have adequate written justification to support the use of the non-competitive process.
- Products and services were received prior to appropriate approval of the contract
- Project managers assigned to the procurement also approved the procurement

Additionally, we noted that the contracting practices did not include the supporting documentation to adequately justify the contract award decisions.

The department's internal controls over the contract process, especially management's responsibility to monitor the results, were ineffective. This may have resulted in receiving less than the maximum value for each dollar expended and not allowing all qualified vendors an equal opportunity to bid.

Recommendation:

During the course of our fieldwork, we observed the Department taking corrective actions by implementing changes to improve their competitive bid evaluation process. Specifically, the Department has augmented the procurement process by implementing a more formal Request for Proposal (RFP) evaluation process. Now, when reviewing RFPs for competitive contract procurements, the evaluation committee uses a scoring system to ascertain which prospective vendor is most suitable to fulfill the requirements of the contract. We recommend that management continue with this procedure. In addition, management should inform staff that contract services may not be used prior to appropriate approval of the contract and that procurement requests must be approved by a higher level of staff than the project manager. Management should also institute detective controls by randomly monitoring both of these items to ensure compliance with County Procurement policy.

Management's Response:

We agree with the auditors' comments, and the following actions have been taken to improve the situation. The Department has continued utilizing the formal Request for Proposal (RFP) evaluation process implemented in FY 2009-10 including an RFP/RFQ log as recommended by the auditors during field. Furthermore, as part of the

Department's internal controls on procurement, contracts are not finalized until after review by specialized fiscal staff and approval by senior management not directly associated with the project. The review process also includes confirmation of the required minimum number of bids, three (3), for the vendor selection process.

Note:

The Economic Development Agency, by nature, is significantly different to most County departments in terms of operation. The relatively high percentage (75%) of non-competitive contracts is a reflection of some of those differences. The Agency's objective of creating, maintaining and growing Jobs and economic value in the County involves establishing relationships with key players within certain industries and market sectors that are critical to attaining the primary goal of attracting business investment to the region.

For example, Corenet Global Inc. is a unique vendor to the Agency in that it promotes events that represent a major engagement point for senior Corporate Real Estate executives and offer the opportunity to expand the County's networks and affiliates with the foremost association in the industry. The relationships that are made and strengthened in CoreNet Global will continue to help improve the quality of life for the County's companies and residents. Contracts such as this by their very nature are often non-competitive.

Another example of the Agency's unique mode of operation with regards to procurement would be the selection of vendors for media-related projects. Since advertising for example, is a very geographic and/or market specific medium, the Agency's strategy is to enter into advertising agreements with leading business journals that have specific area publications in order to reach its selected target markets.

Finally, the Agency has always worked in conjunction with the Purchasing Department to ensure that all contracts adhere to the relevant County procurement policies. The Purchasing Department has and continues to advise the Agency in cases where procurement practices may appear to deviate from County procedures.

Auditor's Response:

The Department has implemented actions that will correct the deficiencies noted in the finding.

Finding 2: Compliance with County policy over CalCard procurement needs improvement

Acceptance and use of a CalCard requires compliance with the Procurement Card Program Procedures Manual (Card Manual). Our audit disclosed several incidents in which EDA did not comply with the Card Manual. Additionally, we noted some potential control deficiencies related to the individual transactions while examining the supporting documentation for the card transactions. The following exceptions were identified in 12 of the 32 transactions tested:

- Required minimum of three bids were not always obtained
- Original detailed receipts for restaurant transactions were not always retained and frequently no specific business purpose was indicated in the CalCard paperwork
- Required Out-of-State Travel Request forms were not always completed

The department's internal controls over the CalCard procurement process were ineffective. Items were approved even when there was insufficient documentation attached possibly resulting in payment for goods or services restricted from purchase by the Card Manual. Not obtaining three bids may have resulted in overpayment for products received and hindering eligible vendors to bid.

Recommendation:

We recommend that management require staff with CalCards to read and follow the Card Manual. Management should also design and implement an annual training of all staff with CalCard duties reiterating the procedures and getting written acknowledgement of staff's acceptance of their responsibilities. Management should also instruct approvers in their responsibility for the completeness of the supporting documentation including the governmental purpose field on the Monthly Procurement Card Purchase Report. In addition, management should institute detective controls by randomly reviewing the Reports to ensure compliance with County Procurement policy.

Management's Response:

We agree with the auditors' comments in regards to the following: The required minimum three bids have not always been obtained in the past. The Agency has implemented stricter controls with regards to obtaining three bids for all or most CalCard purchases when feasible. The Agency, with the help of the Auditor-Controller, is also requiring original detailed receipts for all restaurant transactions as well as governmental purpose justifications. The internal procedure for Out-of-State travel is now preceded by approval of the required Out-of-State Travel request form by the CAO.

Senior management understands the need to be vigilant in monitoring CalCard usage.

Auditor's Response:

The Department has implemented actions that will correct the deficiencies noted in the finding.

Thank you very much for the cooperation extended by your staff during the course of this audit.

Respectfully submitted,

Larry Walker

Auditor-Controller/Treasurer/Tax Collector
San Bernardino County

By: Mark Cousineau
Mark Cousineau, CPA, CIA, CGAP, CITP, CGFM
Chief Deputy Auditor
Internal Audits Section

Quarterly copies to:
Chief Executive Officer
Board of Supervisors (5)
Grand Jury (2)
Audit File
Date Report Distributed: 2/24/12

LDW:MC:DH:PG:mah