

Contracts Procurement Process

Internal Audit Report

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Orange County Sanitation District

Submitted By

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Executive Summary

Eide Bailly LLP (“We”, or “Our”) performed an independent assessment of Orange County Sanitation District’s (“The District”) contracts procurement process to ensure that sole source contracts, Public Works construction projects, and General Manager approved contracts are procured in compliance with the established policies and procedures (P&Ps). During our review, we didn’t identify any instances where contracts were handled and / or processed outside the established guidelines of the District.

Background Information

The District is a public agency that provides wastewater collection, treatment, and disposal services for approximately 2.6 million people in central and northwest Orange County. The District is governed by a Board of Directors consisting of 25 board members appointed from 20 cities, two sanitary districts, two water districts and one representative from the Orange County Board of Supervisors.

The District’s procurement practices are governed by Purchasing Ordinance that establishes general guidelines. There are also numerous internal policy related documents that establish specific requirements and guidelines for each of the three types of contracts reviewed in the scope of this project including sole source contracts, Public Works (PW) construction contracts, and General Manager (GM) approved contracts.

Sole Source contracts are generally associated with purchases greater than \$10,000 that require the following conditions to be met to justify the purchases:

- GM must determine it is the best approach, and / or
- Goods and services are unique based on various product attributes, or
- Goods and services are available only from one source/vendor.

PW construction contracts are generally associated with PW projects greater than \$35,000. PW projects involve construction, erection, or alteration of any type of structure, building, or improvement other than sewerage maintenance or repairs.

GM approved contracts are typically associated with purchases of goods and services between \$50,000 and \$100,000 and such purchases are reported to the Board of Directors (BOD) quarterly. GM approved purchases can also utilize sole source contracts when justified.

Objective & Scope

The objective of this project was to assess whether the District has an effective system of internal controls surrounding 1) sole source contracts, 2) PW construction contracts, and 3) GM approved purchases approved for effective purchasing in compliance with the District's policies. See **Appendix A** for the list of internal controls and related control activities.

The scope of this assessment was to review and evaluate contracts processed in the period from January 1, 2020 to June 30, 2021.

Our service was provided in accordance with the American Institute of Certified Public Accountants’ Statement on Standards for Consulting Services.

Methodology

We designed a set of assessment procedures that were tailored based on the nature and nuances of business processes for sole source contracts, PW construction contracts, and GM approved purchases. The specific procedures for each category of contracts are described below.

1. General Procedures:

- Reviewed the District’s purchasing P&Ps as they relate to the procurement of sole source products and services, PW construction contracts, and GM approved purchases.
- Held discussions with Purchasing and Contracts Manager to gain an understanding and nuances of The District’s contracts procurement process.

2. Sole Source Contracts:

- Obtained a listing of sole source contracts, selected a sample of 15 sole source contracts, and reviewed them for authorization of sole source contracts, including approvals for sole source request forms, minutes, and justification letters. Verified that the District has established valid justification for selecting sole source vendors in accordance with the purchasing P&Ps in addition to reviewing sole source vendor service agreements and invoices.
- Requisition Form: Inspected JDE system workflow records to evidence review and approval of sole source requisitions.
- E-Form: Inspected Sole Source e-forms to verify 1) corresponding justification letter was submitted, and 2) appropriate approvals existed.
- Justification Letter: Inspected Justification Letters to verify valid justification for selecting sole source vendors in accordance with the District's Purchasing Ordinance.
- Agenda Report: Inspected Sole Source transactions exceeding \$100k and verified that the associated Agenda Reports have been submitted to the Board.
- Purchase Order / Invoices: Inspected purchase orders and invoices to verify appropriateness of supporting documentation.
- Denied Requests: Reviewed list of denied sole source requisitions to verify whether denial was appropriate and understand reasons for denial.

3. Public Works Construction Contracts:

- Obtained a listing of public works construction contracts and selected a sample of four contracts in various stages including ‘pending’ and ‘completed’ to perform the detailed testing described below.
- Obtained and inspected a tracking spreadsheet showing list of contracts initial cost, final cost, delivery date, and final delivery date to determine whether contracts were executed successfully based on the monitored criteria.
- Ensured competitive selection was performed (approved vendor, pre-bid, etc.), all required documentation was submitted, and conducted in compliance with both 1) Procurement P&Ps and 2) California Public Contracts Code section 20783.
- Reviewed the PW construction contracts to determine that proper procedures were followed as designed to ensure contracts are appropriate, properly authorized, proper supporting documentation exists including accuracy of invoice payments, and that retention release, insurance, and bonding was obtained.
- Reviewed the completed Budget Approval Forms to ensure appropriate checks and balances exist to ensure proper payment to correct vendors for completed work.

- Reviewed the contingency amount to ensure proper authorization and documentation including management comments and system (PM Web) evidence.
- Performed a review of change orders for appropriate support and approvals.
- Ensured that project participants for selected contracts were appropriate including engineering and project managers.
- Inspected JDE system workflow records to evidence review and approval for selected PW contracts.

4. General Manager Approved Purchases:

- Obtained a listing of GM approved purchases extracted from the District’s ERP system, JD Edwards and selected a sample of 15 contracts to perform the detailed testing described below.
- Board Quarterly Report: Inspected quarterly reports submitted to the Board to verify that purchases approved by the GM were reported completely, accurately, and timely.
- Requisition Form: Inspected JDE system workflow records to evidence review and approval of sole source requisitions.
- Bid Process / Proposals: Inspected bid notices, request for proposals, justification letters, and other supporting documentation to verify competitive selection and appropriate protocols were followed in accordance with the guidelines in the established P&Ps.
- Award Notice: Inspected determination of lowest bid or evaluation process, and award notice to verify contract was awarded based on evaluation factors set forth in the established policies and procedures.
- Executed Contracts: Inspected executed contracts to verify contracts were executed successfully based on the submitted requisition and accepted scope of work.
- Purchase Order / Invoices: Inspected purchase orders and invoices to verify appropriateness of supporting documentation.

Testing Results and Conclusion

Based on the procedures performed during this assessment, the District’s contract procurement practices appear to be in compliance with the Purchasing Ordinance as well as individual contract procurement policies and procedures established. No exceptions or findings were noted requiring immediate attention for process improvement.

Appendix A – Internal Controls and Related Control Activities

We identified the following internal controls (IC) and/or management control activities as they relate to OC San's contracts procurement process:

- IC1.** GM / Assistant GM – approve and execute contracts up to \$100K as well as task order bids up-to \$300K for repair and maintenance contracts.
- IC2.** The Board of Directors approve and execute contracts equal or greater than \$200K including contingencies.
- IC3.** PW Contracts Tracking: The Project Controls Group tracks projects including Public Works by status, Active versus Closed, in addition to Phase, PO, Contract and Engineering Team. Public Works contracts are approved by the Board and include a schedule of prices.
- Who - Project Controls Group
 - What - Tracks Project Status, including cost and completion status
 - When - During Contract Life Cycle
 - How Often - Every Contract
- IC4.** PW Contracts: Procedures exist to solicit bids and/or requests for proposal through notifications, newspaper publication, bids are tabulated, and evidence of award exists.
- Who - Contracts Administrator
 - What - Solicit requests for bids to ensure integrity submissions
 - When - Inception of each approved project, prior to contracting with supplier
 - How Often - All Contracts
- IC5.** PW Contracts – Vendor Pre-qualification: Procedures exist to pre-qualify vendors based upon an Evaluation Checklist, including Financial, Safety and Technical evaluations which are completed by the Evaluation Team.
- Who - Bid Evaluation Team
 - What - Performs a review of Financial, Safety and Technical qualifications through evaluating supplier.
 - When - Prior to awarding contract
 - How Often - All Public Works Contracts
- IC6.** PW Contracts: Contingencies of 10% are approved by the board and evidenced through minutes.
- Who - Board
 - What - Approve contingency amount
 - When - Inception of each project
 - How Often - All Public Works Contracts
- IC7.** PW Contracts: Change Orders are approved based upon adequate support and tracked for the cumulative change order amount to ensure that the contingency is not exceeded.
- Who - Project Manager/Engineer
 - What - Approval and tracking change orders
 - When - As change orders occur
 - How Often - All Change Orders

- IC8.** All Contracts: Retention Release and project registration with the county are performed following project completion and appropriately evidenced.
- Who - Contracts Administrator
 - What - Request retention release payment and county registration
 - When - Project Completion
 - How Often - All Contracts.
- IC9.** All Contracts: Purchase Orders exist to ensure the payments to suppliers do not exceed approved project totals.
- IC10.** PW Contracts: Budgets are prepared and approved for Public Works projects and documented in the associated approval forms.
- IC11.** PW Contracts: Progress payments are tracked in PM Web system and include a retainage withholding.
- IC12.** PW Contracts Administration: Risk is mitigated through obtaining a Certificate of Liability Insurance and Performance Bonds for suppliers.
- IC13.** All Purchases: Requisitions are submitted through JDE and are reviewed and approved by department head.
- IC14.** Sole Source Purchases: Sole Source requests are submitted with a justification letter which are reviewed and approved by Manager, Director, Purchasing Manager, and Director of Finance.
- IC15.** Sole Source Purchases: Purchases over \$100k are included in the Agenda Report and are submitted and reviewed by the Board.
- IC16.** GM-Approved Purchases: All GM-Approved purchase over \$50,000 are submitted and reviewed by the Board on a quarterly basis.
- IC17.** GM-Approved Purchases: Procedures exist to review and evaluate submitted bids or Requests for Proposals to determine lowest and most responsive bid/proposal.



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