



Orange County
Sanitation District
**Supply Chain &
Vendor
Management
Practices
Engagement**

ORANGE COUNTY SANITATION DISTRICT

mgo.

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Executive Summary

OC San operates within a challenging procurement environment in California. Highly specialized wastewater treatment equipment such as pumps, clarifier mechanisms, process-control components, and custom-fabricated materials are often produced by only one or two manufacturers, many of which can be international. This leads to unavoidable sole-source procurements and long global lead times that can exceed a year. California's public-contracting requirements and policies further limit procurement flexibility, and OC San's fixed five-year rate structure limits OC Sans ability to absorb inflationary cost increases and global market volatility.

Within this environment, OC San has established and maintained strong procurement governance. OC San's purchasing ordinance, competitive-bidding rules, documented SOP framework, and clear approval workflows create a solid foundation of transparency, compliance, and internal control. Staff in Purchasing, Warehouse, Contracts, and Accounts Payable demonstrate high professionalism and adapt effectively to market constraints.

OC San's supply chain and vendor challenges are not the result of internal execution failures. They are the predictable outcome of structural market shifts colliding with rigid organizational guardrails. Vendor consolidation, price escalation, labor scarcity, and declining contractor interest have materially altered the operating environment.

OC San is already proactively mitigating external market pressures through early procurement of long-lead assets, increased inventory buffering, diversification of pump suppliers, and strong cross-divisional coordination. The recommendations in this report build upon those strengths to advance efficiency, visibility, and long-term operational reliability.

In response, the organization has taken steps to mitigate the impacts of the realities of the operating environment. These actions are rational and competent, but increasingly defensive and incremental. The cumulative effect is growing reliance on short term operational repairs, deferred capital and maintenance decisions, and erosion of financial maneuverability.

The opportunities identified in this assessment do not reflect systemic internal control weaknesses; instead, they represent modernization enhancements that will strengthen and enhance organizational resilience against structural market realities. These include implementing a district-wide vendor-performance framework, establishing documentation and system-of-record standards, expanding data-governance expectations, and incorporating inflation-aware procurement guidance.

Objective

Between December 2025 and February 2026, Macias Gini & O'Connell (MGO) evaluated the Orange County Sanitation District's (OC San) procurement, vendor-management, and supply chain practices. This review was conducted in alignment with the 2025 Enterprise Risk Assessment and focused on OC San's ability to maintain operational continuity in an increasingly constrained supply chain environment.

The primary objective of this assessment was to evaluate supply chain resilience, supplier selection & diversification & vendor performance and monitoring ensuring management against industry best practices.

Scope & Methodology

This assessment focused on evaluating key components of OC San's supply chain and vendor management practices to identify strengths, gaps, and opportunities for improvement. The scope included:

- Reviewing procurement policies, procedures, and supplier selection criteria to assess compliance with legal standards, clarity of contracting templates, and effectiveness in managing risk, performance expectations, and accountability.
- Assessing supply chain resilience and continuity practices by evaluating procurement processes for critical materials and services, contingency planning for supply disruptions, and the adequacy of continuity and redundancy measures.
- Evaluating vendor diversification and sourcing strategies including vendor concentration risks, availability of alternative suppliers, contract redundancy, and alignment with industry standards and peer public utility practices.
- Analyzing vendor performance monitoring and lifecycle management practices to determine the effectiveness of performance measurement, post-award oversight, issue escalation, contract close-out procedures, and vendor data management such as insurance, audits, and renewals.
- Conducting a preliminary assessment of internal practices to identify areas of strength and opportunities for improvement across project delivery and governance.

The assessment was conducted in three phases: information gathering, analysis, and reporting.

Information Gathering

During this phase, the MGO team:

- Initiated with an entrance meeting in November 2025.
- Requested and reviewed supporting documents including internal forms, procedural documents, and example process documentation.
- Interviewed 27 staff members from Financial Management, Contracts, Purchasing and Materials Management, Operations and Maintenance (O&M), and Engineering to validate and corroborate observations.

Analysis

During this phase, the MGO team:

- Reviewed key policy and procedure documents, including:
 - Procurement policies, sole source justification forms, and emergency procurement tools.
 - Vendor performance tracking reports, satisfaction surveys, and outreach plans and materials.
 - Accounts payable and capital accounting procedures and record retention schedules.
 - Asset lifecycle planning documents and training materials for procurement and contracts.

Reporting

During this phase, the MGO team:

- Conducted meetings with the project sponsor summarizing observations.
- Delivered a draft report.
- Conducted an exit meeting.
- Reviewed and documented any corrective actions taken in response to observations.

Current State

OC San's supply chain and vendor management function underpins daily operations across plant maintenance, capital program delivery, and warehouse and inventory management. The function spans the full procure-to-pay lifecycle, including requisition initiation, sourcing and contracting, goods receipt and inventory control, invoice processing, and vendor coordination necessary to sustain operational reliability.

Vendor performance management is presently decentralized. Individual departments monitor late deliveries, shipment discrepancies, documentation gaps, and invoice issues independently—typically through email correspondence or locally maintained spreadsheets. Because this information is not consolidated into a centralized, district-wide view, OC San lacks the ability to identify cross-functional performance trends, assess vendor reliability holistically, or systematically incorporate performance data into future procurement planning, reorder strategies, or contract renewals.

Procurement activities are executed across multiple systems, including JD Edwards, Maximo, PMWeb, OpenGov, and SharePoint. Each division relies on these platforms for discrete components of the procure-to-pay process. While each system provides necessary functionality within its domain, the absence of a unified system of record results in fragmented data, duplicative documentation, and ongoing manual reconciliation across teams. This environment increases administrative burden and limits real-time visibility into procurement status and vendor activity.

OC San's purchasing ordinance and associated standard operating procedures establish clear requirements for competitive bidding, approval workflows, documentation standards, and contract administration. These policies are comprehensive and well defined. However, day-to-day execution often relies heavily on staff experience and institutional knowledge rather than standardized templates, automated workflows, or shared performance dashboards. This reliance contributes to variability in how requisitions, change orders, sole-source justifications, and supporting documentation are prepared and maintained.

Overall, the current operating model reflects a procurement function that continues to perform reliably due to strong interdepartmental coordination and disciplined adherence to required procedures. At the same time, opportunities exist to enhance consistency, centralize performance data, and improve system-level visibility across vendors and transactions. Strengthening these elements would support more informed decision-making and reduce administrative friction as procurement demands continue to evolve.

Our detailed observations are presented in Table 1. Definitions of the rating scale are included in Appendix B.

Strategic Context

OC San operates as a specialized special district delivering critical, non-discretionary services in a market that has fundamentally changed:

- **Vendor pools have consolidated**, reducing competition and increasing supplier leverage.
- **Input costs have structurally reset upward**, not temporarily spiked.
- **Contractors are selectively bidding**, prioritizing clients with flexibility, scale, and risk tolerance.
- **Supply chains have shifted away from predictability**, undermining legacy just-in-time assumptions.

SUMMARY OF OBSERVATIONS

OC San’s internal posture, however, remains anchored to a pre-disruption operating model—one that assumes competitive markets, stable pricing, and the ability to plan linearly within a fixed rate horizon.

The mismatch between external volatility and internal rigidity is the core strategic issue.

OC San’s operational adjustments (increased outreach, added inventory, selective in-house fabrication, process tweaks, and targeted obsolescence) are rational tactical responses. They buy time and, in some cases, preserve service continuity. But they do not address the core problem: the market has less capacity and more pricing power.

Those mitigations convert external volatility into internal exposures. Inventory ties up cash, in-house fixes increase fixed-cost commitments, and project deferrals accumulate escalation risk that is not captured on the balance sheet. Recent market changes have reduced supplier availability and materially increased the cost and schedule risk of essential goods and services. OC San’s current practice of deferring work, expanding inventory, and substituting vendor capacity preserves near-term rate stability but transfers risk into future periods in ways that functionally resemble unrecorded financing.

Continuing current practice will likely produce more frequent, more expensive emergency procurements, compressed schedules that inflate contractor premiums, and increased potential for service delivery disruptions that are expensive.

Summary of Observations

OC San is not facing a procurement problem. It is facing a financial resilience problem driven by irreversible market changes interacting with fixed institutional constraints. The primary risk is not overspending, but the gradual loss of flexibility, optionality, and long-term cost control through deferral and implicit risk absorption.

Table 1: Observations

#	Observation	Risk
1	Vendor performance is not tracked systematically, limiting visibility into delivery reliability and quality issues.	Medium
2	Documentation inconsistencies can lead to duplicate records and reduced data reliability across the procure-to-pay lifecycle.	Medium
3	Rising materials costs combined with a fixed five-year rate plan constrain financial flexibility.	Medium
4	Reliance on institutional knowledge creates variability in process execution.	Low
5	System and process gaps affect cross-functional visibility and decision-making.	Low
6	Barriers to entry & industry constraints limit competition.	Low
7	Need for on demand training & succession planning.	Low

Observations Narrative

OC San's supply chain and vendor challenges are occurring within a materially altered operating environment that is largely outside OC San's direct control. Over the past several years, vendor consolidation, labor constraints, and sustained cost escalation have reduced competition, limited supplier availability, and increased pricing volatility across core goods and services required for wastewater operations and capital delivery. These conditions are no longer episodic or transitional; they reflect structural changes in the market for specialized public utility vendors.

At the same time, OC San operates within organizational guardrails that constrain its ability to respond flexibly to these external pressures. The District's reliance on a fixed multi-year rate plan and its longstanding policy of avoiding debt issuance limit near-term financial maneuverability and reduce the range of available responses to unanticipated cost increases or supply disruptions. As a result, OC San has limited capacity to absorb volatility through pricing, financing, or accelerated investment.

In this context, OC San has implemented a range of pragmatic operational adjustments, including increased vendor outreach, expanded inventory and warehouse capacity, reduced reliance on just-in-time purchasing, process changes, in-house fabrication where feasible, and selective obsolescence of legacy components. These actions are reasonable and consistent with how similarly situated agencies have responded to supply chain instability. However, they are primarily compensatory in nature and do not address the underlying market dynamics driving vendor scarcity and cost escalation.

The cumulative effect of these conditions is an increasing reliance on short-term mitigations and project deferrals to maintain rate stability and operational continuity. While these actions may reduce immediate financial pressure, they also introduce longer-term risks by narrowing future options, compressing delivery schedules, and increasing exposure to further escalation. In practice, deferred capital work, extended maintenance cycles, and inventory substitutions function as implicit risk-transfer mechanisms, shifting cost and execution risk into future periods rather than eliminating it.

Importantly, the absence of formal vendor management structures or performance frameworks does not appear to be the primary driver of current challenges. Given the limited depth of the vendor market and reduced supplier leverage available to public agencies, OC San's ability to enforce performance norms or obtain meaningful recourse beyond existing contractual mechanisms is inherently constrained. Enhancements to vendor management processes may improve visibility and documentation but are unlikely, on their own, to materially change market outcomes.

Taken together, these factors suggest that the primary risk facing OC San is not procurement noncompliance or operational inefficiency, but a gradual erosion of organizational resilience and financial optionality. As external conditions persist, OC San's capacity to respond to future disruptions—whether supply-related, financial, or operational—may continue to diminish unless tradeoffs are made more explicit and risks are more directly acknowledged at the organizational level.

The following section provides a detailed expansion of our observations, offering targeted recommendations designed to address the specific risk areas and potential mitigants identified during our engagement.

RECOMMENDATIONS

Recommendations

Observation 1: Vendor performance is not tracked systematically, limiting visibility into delivery reliability and quality issues.

OC San maintains strong procurement governance through its purchasing ordinance and related standard operating procedures (SOPs) covering competitive bidding, requisitioning, sole-source justification, ProCard use, and long-term contract procedures. However, none of OC San's policies require structured, post-award vendor performance monitoring, and no system-of-record exists for tracking supplier reliability or service quality across the organization.

Today, vendor performance issues such as late deliveries, missing packing slips, wrong items, extended lead-time variability, invoice discrepancies, or responsiveness concerns can be captured informally within individual divisions (e.g., Financial Management, Contracts, Purchasing and Materials Management, Operations and Maintenance (O&M), and Engineering). These data points are often maintained in Outlook threads, personal notes, or local spreadsheets, and are not consolidated, shared, or incorporated into procurement decisions, strategic sourcing activities, contract monitoring, or renewal evaluations.

Additionally, OC San's multi-system environment (Maximo, JD Edwards, SharePoint) disperses purchasing, receiving, and invoicing information. Without a unified view, OC San is unable to reliably evaluate historical vendor performance or identify systemic issues that may affect plant operations, maintenance scheduling, or project timelines.

While vendor quality dips were not noted by all divisions, these challenges are occurring in the context of industry-wide supply chain constraints. Due to market consolidation, OC San's available vendor pool is smaller, and many suppliers are prioritizing private-sector clients with more flexible scopes or terms. As a result, rigid performance requirements may not always align with available alternatives.

OC San has mitigated many risks through proactive purchasing, increased inventory, and operational adjustments; however, the absence of a district-wide vendor management framework limits the ability to systematically assess trends, prepare for future disruptions, or convert localized mitigation efforts into organizational learning.

To strengthen operational reliability and improve long-term procurement decision-making, OC San would benefit from implementing a scalable and tiered vendor performance management approach that reflects the realities of the public sector and the limited vendor pool. MGO has added additional information for recommendations 1 – 3 in Appendix A.

Recommendation 1: Establish a tiered vendor performance program based on commodity type and market risk.

Recommendation 2: Explore creating a district-wide “vendor event log” to capture issues and reestablish accurate lead times.

Recommendation 3: Incorporate vendor performance data into contract renewals, sole-source justifications, and ongoing vendor management.

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Observation 2: Documentation inconsistencies can lead to duplicate records and reduced data reliability across the procure-to-pay lifecycle.

OC San's procurement and Public Works procedures require extensive documentation; however, the SOPs do not establish district-wide standards for naming conventions, metadata requirements, folder structures, or system of record assignments. As a result, requisitions, justification letters, bid tabulations, evaluation documents, and ProCard backup are stored inconsistently across JD Edwards, SharePoint, PMWeb, and Maximo.

While certain areas such as Emergency Purchases and Public Works Change Management demonstrate strong documentation expectations, these processes still rely heavily on manual attachments, disconnected systems, and non-standardized forms. This contributes to duplicate records, inconsistent labeling, and ongoing issues such as duplicate part creation in Maximo. Interviews further confirmed that naming conventions differ by division and SharePoint/Maximo records lack uniform structure. Although OC San's Records Retention Schedule provides robust guidance on retention and destruction of official records, it does not define the metadata, naming rules, or taxonomy needed to support consistent documentation practices across departments.

These gaps reduce data reliability across the procure-to-pay lifecycle and create significant inefficiencies. Staff in Accounts Payable, Warehouse, Capital Accounting, and Contracts frequently perform manual reconciliations due to mismatched or duplicate documentation, and multi-system workflows introduce version-control risk for capital project. Without a unified approach to document control, OC San's ability to maintain accurate, accessible, and audit-ready records is diminished, increasing operational workload and reducing confidence in procurement and project data.

To address these issues, OC San should implement a district-wide document-control framework that establishes consistent expectations for all procurement, contracts, maintenance, and capital project files. This should include creating a standardized taxonomy and naming structure; defining required metadata fields such as project number, vendor, commodity code, revision, and fiscal year; and establishing uniform folder structures within SharePoint and other repositories. Integrating these standards into existing SOPs along with the use of controlled templates for justification memos, price evaluations, cost estimates, and change management tools would significantly reduce duplication, strengthen data integrity, and streamline reconciliation and audit processes.

Recommendation 4: Establish a district-wide document standard that defines naming conventions, required metadata and standardized folder structures for all procurement, contracting, maintenance, and capital project documentation.

Recommendation 5: Designate and document system of record requirements for each document type across systems, ensuring consistent file storage, retrieval, and version control throughout the agency.

Recommendation 6: Continue the work, already underway, assessing the feasibility of migrating toward an interoperable finance system environment.

Recommendation 7: Assess potential gaps, duplications, or otherwise tied to multiple system(s) access and segregation of duties.

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Observation 3: Rising materials costs combined with a fixed five-year rate plan constrain financial flexibility.

OC San operates under a fixed five-year rate plan, which could limit its financial flexibility as material costs continue to rise. Although the Emergency Purchases SOP and Purchasing procedures emphasize minimizing emergency buys and achieving cost savings, they do not address pricing strategy, inflation-sensitive procurement, or the use of escalation clauses and cooperative contracts. The policies also lack guidance on cost caps, pre-negotiated emergency rates, commodity-specific sourcing strategies, or long-term cost modeling tied to rate structures.

Despite these gaps, Engineering and Operations have demonstrated strong operational resilience by increasing inventory levels to buffer supply chain volatility, procuring long-lead assets early, responsibly extending asset life cycles when necessary, and exploring U.S.-based pump alternatives to reduce European supply chain exposure. These measures help offset volatility, but the absence of formal guidance within procurement SOPs limits OC San's ability to systematically manage inflation-impacted purchasing. No SOP requires evaluating cost escalators, forecasting inflation-sensitive materials, or pursuing consolidation strategies.

Without a structured cost-management framework, rising material costs can exacerbate budget pressure and emergency purchases can further elevate unit costs and freight expenses under OC San's fixed rate environment.

Adding inflation-aware procurement practices and cost-management tools to existing SOPs would strengthen long-term financial resilience and support more predictable budgeting under fixed rate plans.

Without changing the rate plan or issuing debt, finance leadership can still act in a variety of ways:

- 1) Explicitly classify deferral as financial exposure
- 2) Reframe 'affordability' and 'responsiveness' internally
- 3) Prioritize schedule certainty
- 4) Adjust the perspective on market volatility from temporary to permanent
- 5) Preserve liquidity and optionality whenever possible

Recommendation 8: Explore incorporating long-term cost-forecasting and inflation-risk planning into procurement SOPs, including multi-year cost modeling tied to rate plans and early budgeting adjustments based on lead-time trends and cost indices.

Recommendation 9: Shift organizational culture to align with new market and labor realities.

Observation 4: Reliance on institutional knowledge creates variability in process execution.

OC San's change-order and procurement procedures are detailed, but their execution still depends heavily on professional judgment and institutional knowledge. Change-order processing requires staff to interpret scope, select the appropriate change order method, assess contractor documentation, and prepare technical documents such as independent cost estimations, time impact analyses, pre-negotiation plans, and records of negotiations. Similar reliance on experience is required for sole-source justifications, JD Edwards requisitioning, assembling complete attachment packages, and documenting evaluations. Because SOPs do not include standardized templates, job aids, examples, or documented training expectations, staff often rely on informal knowledge transfer, which varies across divisions.

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This is most evident in emergency purchasing, where after-hours vendor selection depends on individual memory rather than pre-approved vendor lists. While some areas such as Contracts' checklists and Warehouse's Maximo retraining help reduce variability, OC San lacks a formal mechanism to ensure process consistency when staff onboard, transition roles, or depart. The record retention schedule also does not define requirements for preserving role-specific responsibilities or ensuring continuity when document owners and approvers change.

These gaps introduce variability in how change orders, requisitions, and justifications are prepared and documented, reducing consistency and increasing the risk of incomplete or uneven application of procurement and contracting requirements. Strengthening SOPs with standardized tools, training, and role-continuity expectations would reduce reliance on individual experience and improve documentation quality across teams.

Recommendation 10: Add role transition and knowledge retention documentation requirements to record retention policy and standard operating procedures.

Recommendation 11: Implement job aids and examples for common documentation to reduce reliance on staff interpretation and internally held process knowledge.

Observation 5: Multiple systems and process gaps affect cross-functional visibility and decision-making.

OC San's procurement, change-order, and financial workflows operate across multiple systems such as Maximo, JD Edwards, OpenGov, PMWeb, and SharePoint with no defined system of record or cross-system data governance. Although staff maintain strong service levels through manual checking and collaboration, the underlying processes remain fragmented and require significant reconciliation effort.

Change-order workflows involve multiple roles (Project Manager, Resident Engineers, Contracts, Engineering, Accounting, and the General Manager), yet none of the SOPs define how change-order data is to flow across JD Edwards, PMWeb, or SharePoint, nor do they specify reconciliation frequency, ownership of cross-system updates, or requirements for digital workflows or reporting dashboards. Similar gaps exist in procurement, ProCard, blanket PO, and requisition processes, all of which rely heavily on manual routing and uploads.

These omissions result in inconsistent visibility. Without formalized data governance and system-of-record standards, OC San's cross-functional decision-making remains dependent on manual processes, individual knowledge, and departmental workarounds. Addressing these gaps through a unified data-governance framework would significantly reduce reconciliation workload, strengthen reporting accuracy, and ensure consistent visibility across procurement, contracting, maintenance, and capital-project teams.

Recommendation 12: Insert a "Cross-System Data Governance" section into the Purchasing SOP or create a standalone policy that defines: System of record for each data type (vendor, purchase order, invoice, contract, inventory), required reconciliation frequency, and integrated reporting standards.

Observation 6: Barriers to entry and industry constraints limit competition.

OC San's policy SOP 401-1-07 Sole Source Purchases establish strong expectations for competitive procurement, requiring clear justification for sole-source awards, defined approval workflows, and Board

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thresholds. Multi-step sealed bids, competitive proposals, and prequalification processes reinforce competitive integrity. OC San also takes proactive steps to expand supplier participation, such as piloting U.S.-based pump alternatives, maintaining multiple on-call contracts to keep vendor pools competitive, and providing outreach through PlanetBids, newsletters, and the “Doing Business” portal. These practices demonstrate a commitment to minimizing non-competitive purchasing.

However, the procedures do not include mechanisms for periodic market testing, ongoing review of sole-source categories, monitoring supplier concentration by commodity group, or formal strategies for commodities with limited competition. In addition, guidance documents do not explicitly address pre-qualification strategies for constrained markets, use of alternative procurement methods to broaden competition, or targeted supplier-development efforts for small or local firms.

Integrating these elements into SOP 401-1-07 would help OC San ensure long-term competition, reduce supplier dependency, and support broader vendor access for complex technical scopes.

Recommendation 13: Incorporate periodic market testing and supplier-concentration monitoring into SOP 401-1-07 to ensure ongoing competition and identify areas where sole-source reliance is increasing.

Recommendation 14: Explore expanding vendor-access strategies by adding commodity-specific sourcing approaches, pre-solicitation vendor education, and readiness sessions for small/local firms to the Purchasing Ordinance and vendor-outreach materials.

Observation 7: Need for on demand training and succession planning.

In-person training is highly valued and actively delivered, especially for Maximo, OpenGov, and JD Edwards. Warehouse is leading new Maximo retraining cycles after identifying adoption gaps. Cross-team collaboration naturally supports informal knowledge transfer and succession readiness.

Multiple groups want recorded or self-paced training, but no policy document (SOP, record retention policy, or Purchasing guidance) defines training requirements, frequency, or format. Turnover in Planning, Maintenance, and Purchasing has already created variability in system use and documentation quality.

Recommendation 15: Explore training module software to provide employees with self-paced learning opportunities.

Recommendation 16: Assess key departmental and positional succession risks and develop succession plans accordingly. Create a standard process and procedure for revisiting these succession plans annually and assessing additional risks and plans.

Appendix A – Vendor Management Enhancements Recommendations

Recommendation 1: Establish a Tiered Vendor Performance Program Based on Commodity Type and Market Risk

To avoid overburdening specialized or sole-source vendors while still improving visibility across routine commodities, OC San should adopt a flexible, tiered performance model. It is recommended OC San begin with smaller, widely available items while maintaining flexibility for high-complexity categories.

- Tier 1 – Widely available commodities (e.g., batteries, janitorial supplies, PPE): Apply standard metrics (on-time delivery, correct quantities, documentation accuracy).
- Tier 2 – Common maintenance, repair, and operations support items: Use a simplified scorecard and quarterly review.
- Tier 3 – Specialized, sole-source, or custom-fabricated items: Track performance consistently, but use results to adjust expectations and planning, not to drive vendor switching.

Recommendation 2: Explore Creating a District-Wide “Vendor Event Log” to Capture Issues and Reestablish Accurate Lead Times

OC San should explore implementing a centralized, light-touch vendor event tracking mechanism (e.g., a standardized SharePoint form or Maximo/ JD Edwards add-on field) to capture delivery issues, documentation errors, responsiveness problems, and invoice discrepancies. The goal is not to force vendor changes, but to retime ordering and improve planning based on real-world performance. Consolidating this information will enable:

- Recalibration of actual lead times
- Improved reorder point planning
- Reduction of emergency purchasing and expediting
- Better coordination across Warehouse, AP, O&M, and Purchasing
- Heightened visibility into chronic vendor issues

Recommendation 3: Incorporate Vendor Performance Data Into Contract Renewals, Sole-Source Justifications, and Ongoing Vendor Management

OC San should incorporate vendor performance metrics as supporting evidence for: Long-term contract renewals, annual vendor reviews, sole-source justification memos, and market checks and sourcing strategies.

Performance data should inform, not determine, procurement decisions. For markets with limited vendor choice, the purpose is transparency, expectation setting, and continuous improvement rather than punitive measures. This provides a defensible, data-backed basis for procurement decisions while respecting market constraints.

Appendix B – MGO Ratings Definitions

Observation Risk Rating Definitions		Report Rating Definitions	
Rating	Definition	Rating	Explanation
Low	Process improvements exist but are not an immediate priority for OC San. Taking advantage of these opportunities would be considered best practice for OC San.	Low	Adequate internal controls are in place and operating effectively. Few, if any, improvements in the internal control structure are required. Observation should be limited to only low risk observations identified or moderate observations which are not pervasive in nature.
Medium	Process improvement opportunities exist to help OC San meet or improve its goals, meet or improve its internal control structure, and further protect its brand or public perception. This opportunity should be considered in the near term.	Medium	Certain internal controls are either: <ul style="list-style-type: none"> • Not in place or are not operating effectively, which in the aggregate, represent a significant lack of control in one or more of the areas within the scope of the assessment. • Several moderate control weaknesses in one process, or a combination of high and moderate weaknesses which collectively are not pervasive.

(1) Risk ratings assigned by the MGO Team are based on professional judgement. Professional judgement is generally defined by the American Institute of Certified Public Accountants (AICPA) as the application of the accumulated knowledge gained through training and experience and by making use of the ethical standards, which results in making informed decisions about the level of risks and the courses of recommended actions that are appropriate in specific circumstances.

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