



# ADMINISTRATION COMMITTEE

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## Agenda Report

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**File #:** 2022-2102

**Agenda Date:** 2/9/2022

**Agenda Item No:** 7.

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**FROM:** James D. Herberg, General Manager  
Originator: Lorenzo Tyner, Assistant General Manager

**SUBJECT:**

### INTERNAL AUDIT UPDATE

### GENERAL MANAGER'S RECOMMENDATION

RECOMMENDATION: Recommend to the Board of Directors to:

Receive and file the Orange County Sanitation District Contracts Procurement Process Internal Audit Report dated January 4, 2022.

### BACKGROUND

The Orange County Sanitation District (OC San) selected the audit firm of Eide Bailly LLP to provide audits of various OC San programs and processes as selected by the Audit Ad Hoc Committee. Most recently, the Audit Ad Hoc Committee selected the contracts procurement process for audit. The auditors were directed to focus their efforts on three specific areas: Construction Contract Compliance, Sole Source Contracts, and General Manager Approved Purchases. The auditors will provide an update of those efforts. Additionally, staff and the auditors will present potential topics for future audit selection.

### ADDITIONAL INFORMATION

The Audit report covers:

Eide Bailly LLP performed an independent assessment of OC San's contracts procurement process to ensure that sole source contracts, Public Works construction projects, and General Manager approved purchases are procured in compliance with the established policies and procedures. The audit work done in the three areas is summarized below.

#### 1) **Construction Contract Compliance**

Audit contracts related to four (more or less) construction projects to determine if they were executed successfully in several areas, including project cost and timeliness, accuracy of invoice payments, retention release, and administrative requirements such as insurance and bonding.

Validate that appropriate checks and balances exist between Engineering and Contracts staff to ensure proper payment to correct vendors for completed work.

**2) Sole Source Contracts**

Review OC San's purchasing policies and procedures as they relate to the procurement of sole source products and services, including a walkthrough to determine that the proper procedures were being followed as designed to ensure that sole source contracts are properly authorized and appropriate.

Selected sole source contracts and test projects for key internal controls related to the authorization of sole source contracts, including approvals for sole source request forms, minutes, and justification letters. Test that OC San has established valid justification for selecting sole source vendors in accordance with the purchasing policies and procedures in addition to reviewing sole source vendor service agreements and invoices.

**3) General Manager Approved Purchases**

The General Manager has the authority to approve purchases over \$50,000. These purchases are reported to the Board on a quarterly basis through a report to the Administration Committee. Review purchasing process to ensure that appropriate documentation is completed, and protocols are followed.

**PRIOR COMMITTEE/BOARD ACTIONS**

January 2022 - Audit Ad Hoc received the report and recommended for approval to the Administration Committee/Board of Directors.

**RELEVANT STANDARDS**

- Conduct audits to determine if an entity's operations are being conducted in an economical and efficient manner
- Conduct audits to establish whether specific government programs are effective in meeting their stated goals and objectives
- Conduct audits to determine if an entity is following policies and procedures in conducting operations

**ATTACHMENT**

*The following attachment(s) may be viewed on-line at the OC San website ([www.ocsan.gov](http://www.ocsan.gov)) with the complete agenda package:*

- Contracts Procurement Process Internal Audit Report
- Previous Audit list
- Audit Schedule