COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER

KENNETH HAHN HALL OF ADMINISTRATION
500 WEST TEMPLE STREET, ROOM 525
LOS ANGELES, CALIFORNIA 90012-2766
PHONE: (213) 974-8301 FAX: (213) 626-5427

J. TYLER McCAULEY
AUDITOR-CONTROLLER

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TO: Supervisor Yvonne Brathwaite Burke, Chair
Supervisor Gloria Molina
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: J. Tyler McCauley
Auditor-Controller

SUBJECT: **SHERIFF'S DEPARTMENT CONTRACTING STATUS REPORT – JUNE 2003**

In September 2002, based on concerns with retroactive contracts and other issues, the Board considered no longer allowing the Sheriff to perform its own contracting and purchasing functions. In October, the Board accepted the Chief Administrative Officer's (CAO) recommendation to allow the Sheriff to continue to perform these functions with the assistance of the Internal Services Department (ISD) and Auditor-Controller. The Board also approved the Sheriff's corrective action plan to address the Board's concerns.

In December, the Sheriff, CAO, ISD and my office issued a joint report detailing the progress the Sheriff had made to date to improve the Department's contracting and purchasing functions. In that report, we indicated that the Auditor-Controller would monitor the Sheriff's progress and report to your Board quarterly. We issued our first quarterly report in March 2003. Attached is our second quarterly report on the Sheriff's progress in improving its contracting and purchasing functions.

Scope

Our review included detailed testwork on a sample of Sheriff contracts to determine whether the Sheriff's new contract database is accurate and functional. In addition, we tested a sample of purchasing transactions to determine whether Sheriff staff is following the County and Department contracting and purchasing procedures. We also followed up on the previous purchasing violations noted in our March 2003 Contracting Status Report, including whether appropriate disciplinary action was taken. Finally, we interviewed staff and managers from the Sheriff, ISD and the CAO.

Review Summary

The Sheriff is continuing to make progress in implementing the corrective action plan and is improving its contracting and purchasing operations. For example, all Sheriff contracting staff has now attended the County's two-day contracting training. In addition, the Sheriff has successfully implemented its contract and purchase order tracking systems to help minimize retroactive contracts and ensure County contracting and purchasing rules are followed.

However, the Sheriff needs to take further action to fully implement the corrective action plan. Some violations of County purchasing rules are still occurring and not being detected based on our review of a sample of purchasing transactions. For example, we noted two instances where the Department did not obtain the required number of bids for non-agreement purchases and one instance where purchases may have been fragmented to circumvent the Department's purchasing limit. The Department is investigating these issues and will report back to your Board by July 31, 2003.

Also, the Sheriff needs to ensure operating units respond to notices of purchasing violations in a timely manner and hold managers accountable for purchasing violations. The units are not responding to the notices of violation within the time required by the Sheriff's new procedures. In addition, the corrective actions for violations have been limited to providing staff with additional training. While additional training appears reasonable given the recent changes in purchasing procedures, the Sheriff should monitor the individuals responsible for repeated violations and progressively increase the severity of disciplinary action.

Finally, the Sheriff needs to continue working with the CAO on augmenting the staff in the Contract Unit. The Departments have not reached agreement on the number of additional staff required or on funding for the additional positions. We suggest phasing in a limited number of additional staff and evaluating staffing needs in six months to determine if there are any critical unmet operational needs.

Details of our findings are attached.

Review of Report

We discussed the result of our review with Sheriff management who indicates general agreement with our findings. Sheriff management stated that it is committed to improving the Department's contracting/procurement operations and that it will continue to work cooperatively with the Auditor-Controller and ISD to bring the Department into compliance with County contracting/procurement policies.

Please call me if you have any questions, or your staff may contact DeWitt Roberts at (626) 293-1101.

JTM:DR:MP

Attachment

c: David E. Janssen, CAO
Leroy D. Baca, Sheriff
Dave Lambertson, Acting Director, ISD
John Fullinwider, CIO
Violet Varona-Lukens, Executive Officer
Public Information Office
Audit Committee

Sheriff's Contracting and Purchasing Operations
Quarterly Status Report

Contracting Infrastructure

Sheriff's Corrective Action Plan – Contract Unit Staffing

The Sheriff's corrective action plan indicated that the Contracting Unit needed to be restructured to bring the Department into compliance with County policies and procedures.

Our March 2003 status report indicated that the Sheriff's Department had reorganized the Contracting Unit. We also noted that the Unit had three vacant positions and that the Sheriff's fiscal year (FY) 2003-04 budget request included 11 additional positions for the Unit. These 11 positions would effectively make the Contracting Unit a separate bureau with a dedicated Director and allow the Director to focus entirely on contracting. At the time of our March review, the CAO and Department of Human Resources were evaluating the request for additional positions.

Current Status

The Sheriff's Department has selected a candidate to fill one of the three vacant positions and is currently awaiting CAO approval to promote the individual. However, the Sheriff has not found a suitable candidate to fill the second vacant position and the Sheriff and the CAO have recently determined that the third vacant position was not budgeted. The Sheriff included this position in its FY 2003-04 budget request. However, the CAO did not include this position in the proposed FY 2003-04 budget for the Sheriff. The Sheriff's Department identified the 11 additional positions for the contracting unit as an unmet need. Primarily due to budget curtailments required to address the County's structural deficit, the Department did not reallocate existing resources to fund the positions and the CAO did not allocate additional net County cost (NCC) for the positions.

Additional Actions to be Taken

The Sheriff needs to continue its efforts to fill the vacant budgeted position in the Contracting Unit. We believe that some number of additional positions are necessary and it is not reasonable to expect significant long-term improvements without additional staff. The Sheriff should work with the CAO to identify funding for the additional positions for the contracting unit either through additional NCC or through other savings or reductions in the Sheriff's budget.

Training Manual and Policies and Procedures

Sheriff's Corrective Action Plan – Manuals and Procedures

The Sheriff's corrective action plan indicated they would develop a contract training manual and contracting policies and procedures.
In March 2003, we reported that the Sheriff was planning to adopt the Internal Services Department's (ISD) Countywide Services Contracting Manual as their training/policy and procedures manual. The Department also planned to supplement the manual with Sheriff-specific contracting policies and procedures. In addition, we reported that ten of the Sheriff's contract analysts had attended the County's two-day Contracting Principles training and the remaining three analysts would attend the training as soon as space became available in the class. Contracting staff also received training directly from ISD and the Auditor-Controller. Further training was being planned.

Current Status

The Contracting Unit has officially adopted ISD's Countywide Services Contracting Manual as its training/policy and procedures manual. The Contracting Unit will develop Sheriff-specific contracting policies and procedures to be included in the Manual as necessary. In addition, the Unit has established a central library that contains the Manual and other County manuals and policies (e.g., County Fiscal Manual, Living Wage Ordinance Manual, etc.).

All personnel in the Sheriff's Contracting Unit have now attended the County's two-day contract training. In addition, most Contracting staff and managers recently attended a one-day supplemental training course on contract solicitations and contract monitoring provided by the Auditor-Controller. Contracting Unit management is also working with ISD to identify areas where additional training should be provided, including training on the Master Agreement solicitation process.

Additional Actions to be Taken

Overall, it appears the Sheriff is taking appropriate actions to train staff and develop policies and procedures. The Sheriff needs to continue its efforts to develop Sheriff-specific policies and procedures to supplement ISD's Countywide Services Contracting Manual when necessary.

Contract Tracking System

Sheriff's Corrective Action Plan – Tracking Systems

The Sheriff's corrective action plan indicated they planned to develop a system to track purchase order expenditures to identify any service purchases in excess of $100,000 that may require Board-approved contracts. In addition, the Sheriff planned to develop

a system to track contract expenditures and termination dates to minimize retroactive contracts.

In our March 2003 report, we indicated the Sheriff had developed and was using the Contract Monitoring Information System (CMIS) to track contract expenditures and termination dates to minimize retroactive contracts. The CMIS system contains information needed to track contract expenditures, cost overruns and renewal/termination dates. In addition, the Department utilizes the Account Threshold Manager (ATM) system to track service purchases to avoid exceeding the $100,000 limit. The ATM system contains monthly purchase order payment details, year-to-date expenditures and the total amount expended over the past three fiscal years for each service vendor in the system.

Our prior testwork disclosed that one of five contracts had understated year-to-date expenditures on CMIS. In addition, we noted minor discrepancies between the information on CMIS and the contracts (e.g., differences in the project name and name of the project analyst).

Current Status

- Contract Monitoring System (CMIS)

  We followed up on the discrepancies from our prior review and noted that the Department had corrected the understated expenditures on CMIS. However, there continue to be some minor discrepancies between CMIS information, the contracts and the Board letters. Contract Unit management indicates that it is continually updating the system to reflect the correct information.

  We reviewed the expenditure data for five current contracts listed in the system and noted that CMIS understated the FY 2002-03 expenditures on one contract by $343,500. Sheriff management indicated that this difference was the result of an oversight in the last monthly update for this contract and will be corrected in the next CMIS update. Because the Department's procedures require that staff re-check reported expenditures as part of their monthly system updates, it appears these types of errors should be routinely identified and corrected.

  Overall, it appears that CMIS, if properly maintained and used, should minimize retroactive contracts and cost overruns. While the Sheriff did recently bring six retroactive purchase orders before the Board, it should be noted that all of these transactions occurred before the Sheriff's CMIS and ATM systems were fully implemented.

- Account Threshold Manager System (ATM)

  We did not test the ATM system during our March 2003 review because the database contained significant extra information that the Department did not use

(e.g., purchase orders for commodities). Our current review indicates that the Department has eliminated the extra information from the ATM database.

To ensure completeness of the system's updated information, we obtained a list of current Sheriff purchase orders from CAPS and selected a sample of 18 service vendors. We verified that all 18 vendors were included in the ATM system. In addition, we reviewed the FY 2002-03 purchase order expenditures for five vendors and verified that the ATM system accurately reported the total expenditures for these vendors. It appears the ATM System now provides the Sheriff adequate information to monitor cumulative purchase order expenditures.

- Countywide Contract Monitoring System

  In our March status report, we indicated that the Auditor-Controller was developing a Countywide contracting reporting database. The system will automatically issue reports on key contracting criteria, such as spending limits and expiration dates.

  The first phase of the Countywide system is now operating. All departments, including the Sheriff, submit monthly contracting reports to the Auditor-Controller where the information is entered into the database. The Auditor-Controller then issues updated Countywide contracting reports, including reports that show when contracts are expiring.

  When the second phase of the Countywide system is implemented, departments will enter their contract information directly into the system and the information will be available on-line. Sheriff and Auditor-Controller staff are working to minimize duplication of effort between the two systems by having the Sheriff continue to enter their contracting data into the CMIS system with an interface to transfer CMIS information to the Countywide system. We expect the second phase of the Countywide system to be implemented in August 2003.

Manager Accountability

Sheriff's Corrective Action Plan - Accountability

The Sheriff's corrective action plan indicated they would improve manager accountability by informing managers of County purchasing guidelines and disciplining managers who violated the guidelines.

In our previous status report, we indicated that the Sheriff had notified its Unit Commanders in writing that they are responsible for complying with County contracting and purchasing policies and are subject to discipline for any violations. The Department was also working to incorporate this policy into their policies and procedures manual. We noted that the Sheriff had taken the following additional actions to improve accountability over contracting and contract monitoring:

- Completed a "Protocol Checklist" to be used by the Sheriff's Contract Analysts in preparing Requests for Proposals (RFPs).

- Drafted contract file policies that specify the documents and information that must be included in each Board-approved contract file.

- Drafted policies for quarterly meetings between contracting staff and project directors and managers to discuss the current status of contracts.

- Began drafting a checklist of procedures to be used to monitor vendor compliance with contract terms and contract expenditures.

Current Status

Since our March 2003 review, the Sheriff has taken the following additional actions:

- Updated the "Protocol Checklist" (now called the RFP Action Plan) to include additional milestones and timeframes for meeting these milestones to help reduce the risk of retroactive contracts.

- Finalized contract file policies specifying the documents and information that must be included in each Board-approved contract file. We noted that three of five contract files we reviewed were missing some required documents, such as approved Board letters, vendor insurance certificates and contract summary sheets. Management needs to more closely monitor contract files to ensure they contain all necessary information.

- Held 13 meetings between contracting staff and project directors and managers.

- Developed procedures for designing a "Contract Monitoring Checklist" for each new Board-approved contract. We reviewed two checklists the Department recently completed, and it appears that they will provide the Department with a good tool for ensuring vendor compliance with the contract.

Additional Actions to be Taken

Overall, we believe the Department is continuing to take appropriate actions to improve manager accountability. However, Sheriff management needs to continue monitoring to ensure that contract files are complete. In addition, we noted certain problems with the Department's procedures for notifying and disciplining staff who violate purchasing guidelines. These issues are discussed in the following section on Centralization of Purchasing Function.

Centralization of Purchasing Function

Sheriff's Corrective Action Plan – Purchasing Centralization

To strengthen purchasing controls, the Sheriff indicated they would centralize purchasing approvals by requiring Division-level budget staff to approve all non-agreement purchases. Previously, only Unit/Section Head approval was required.

In addition, the Sheriff planned to have the Accounts Payable (AP) Section review all non-agreement purchases to identify potential purchasing violations and ensure that non-agreement purchases are approved at the division level. When a violation is identified, AP is supposed to issue a violation notice to the chief of the division making the purchase who must respond within two weeks.

Current Status – Violation Notices

In our March 2003 report, we noted that the Sheriff's AP Section had prepared approximately 30 violation notices, but did not send the notices to the divisions making the purchases because the AP Section had not developed a tracking log. Our current review indicates that the Sheriff did develop a tracking log and sent the 30 violation notices to the divisions. The AP Section also sent out an additional 57 violation notices.

The AP Section has also issued a violation notice for the transaction noted in our prior report where a division appeared to fragment an order to circumvent the Department's $5,000 non-agreement purchasing authority. The division placing the orders indicated that they separated the two orders because the parts were needed for two separate air conditioning maintenance jobs, and they wanted to account for the cost of the jobs separately. However, because the two jobs were for air conditioning units in the same building and the orders were placed at the same time, we believe the orders should have been combined and referred to ISD because the total exceeded the Sheriff's delegated purchasing authority. Sheriff staff acknowledged that the orders could have been combined and that they would combine future orders as required.

We reviewed the Sheriff's files for five additional violation notices issued by the AP Section. Based on our review, it appears that, for two violations, division managements' responses and corrective actions were appropriate. However, for the remaining three violations, the divisions' responses did not adequately explain or document their investigations. Two of the three violations were for lack of supervisory approvals for orders, and the third violation was for lack of division-level approval. The units' responses to AP only indicated "Training and changes implemented" and the individuals involved were not identified.

We obtained additional information and documentation on the violations from the units and noted that the supervisory approvals had in fact been obtained. However, the divisions did not submit the documentation to AP during the payment approval process. It should be noted that the lack of division-level approval actually occurred before the

Department changed its procedures requiring division approval. The division managers also indicated that the individuals involved were retrained on the Department's approval and documentation procedures. It appears the divisions took appropriate action for the violations we reviewed. However, to enhance accountability, units' responses to AP should more thoroughly explain the circumstances surrounding each incident, their investigations, and the corrective actions taken. In particular, the units should identify the individuals involved (or their employee numbers to ease privacy concerns) to help monitor for any repeat violations, so that increasingly severe discipline can be administered to individuals that continue to fail to comply with Department policies.

We noted the following additional problems with the Department's violation notice process:

- The violation log is not up-to-date and may not include all of the divisions' responses. Management indicated that the employee assigned to monitor units' responses to violation notices and maintain the log went on leave for several weeks and that the log was not updated during the person's absence. While AP staff continued to review transactions and issue violation notices as necessary, the tracking and monitoring of the notices during the individual's absence was not documented. Management recently assigned another employee and a backup to update the log and monitor violations.

- Divisions are not responding to violation notices timely. For four of the five violations we tested, the divisions did not respond until an average of 26 days after the two-week deadline. Based on the violation log, there are an additional 23 responses that are from two weeks to two months overdue.

- In our March 2003 report, we indicated that the Department had not issued violation notices for ten purchases. Our current review disclosed that the Department still has not issued the violation notices. AP Section management indicated that they would immediately issue violation notices for four of the transactions. For the other six transactions, we are continuing to work with the Sheriff to determine if notices should be issued.

Additional Actions to be Taken

As indicated above, Department management needs to:

- Ensure AP staff and managers adequately maintain the purchasing violation log and monitor to ensure division responses are received timely and include adequate explanations.

- Ensure divisions thoroughly explain and document their investigations of reported violations, including monitoring individuals for repeat violations.

Current Status - Non-Agreement Purchases

To evaluate whether the new procedures were identifying all purchasing violations, we reviewed ten recent non-agreement purchases. Our review indicates that the Sheriff's new procedures have improved compliance with non-agreement purchasing policies. However, we noted one instance where division staff did not obtain the required number of bids for a purchase. It should be noted that AP staff had already identified the violation during their review and issued a violation notice.

We also noted two purchases made by one unit totaling $5,758 that were made from the same vendor and had the same requisition date, requisition approval date, vendor bid date and invoice date. This indicates the purchases may have been fragmented to circumvent the Department's $5,000 purchasing limit. This exception was not identified by the AP Section during their review. Sheriff Fiscal Administration indicated they would investigate the transaction and would issue a violation notice if appropriate.

Current Status - Agreement Purchases

We also reviewed five recent purchases from agreement vendors and noted that for two transactions, the Department purchased non-agreement items from agreement vendors using an agreement purchase order. Because the items were not covered by an agreement and exceeded $1,500, the Sheriff should have obtained three price quotes and processed the purchases under a non-agreement purchase order.

The Department indicated that the field units that placed the above orders did not have access to the agreement vendors' catalogs because the catalogs were not available on-line. As a result, they could not ensure the items ordered were on agreement. In both instances, the AP Section's review did not discover the violations. Sheriff Fiscal Administration management indicated that AP staff only "spot check" agreement purchases to ensure that staff are not ordering non-agreement items. However, these spot checks are not documented.

Additional Actions to be Taken

Management needs work with ISD to obtain agreement vendor catalogs that re not available on-line and provide them to all staff who place orders. In addition, management should reemphasize to staff that they should not order non-agreement items from agreement vendors without the required number of bids.

Special Operations Units

Sheriff's Corrective Action Plan – Special Operation Agreements

Based on the specialized services required by some units (e.g., Aero Bureau), the Sheriff indicated they would work with ISD to develop agreements for repetitive non-agreement purchases.

In our March 2003 report, we indicated that the Sheriff had analyzed the Aero Bureau's non-agreement purchases and submitted requests to ISD to establish agreements with approximately 30 vendors. The Sheriff also indicated they would be working with other specialized units such as Medical Services to identify additional purchases that may be candidates for agreements.

Current Status

ISD is still reviewing the Sheriff's request to establish agreements for the Aero Bureau. Sheriff Fiscal Administration indicated that they are working to centralize the evaluation of specialized unit purchases and are working with ISD to establish agreements for frequently purchased services and supplies.

Additional Actions to be Taken

To help ensure the best prices are obtained and to help streamline the procurement process, the Sheriff should continue their efforts to evaluate purchases and work with ISD to establish agreements for frequently purchased services and supplies.