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Third District

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MICHAEL D. ANTONOVICH
Fifth District

November 21, 2007

To: Supervisor Zev Yaroslavsky, Chairman
Supervisor Gloria Molina, First District
Supervisor Yvonne B. Burke, Second District
Supervisor Don Knabe, Fourth District
Supervisor Michael D. Antonovich, Fifth District

From: William T Fujioka
Chief Executive Officer

**REPORT ON THE CORRECTIVE ACTION PLAN IN RESPONSE TO THE
PROCUREMENT AUDIT OF THE DEPARTMENT OF CHILDREN AND FAMILY
SERVICES**

On August 14, 2007, on motion of Supervisor Michael D. Antonovich, as amended by Supervisor Yaroslavsky, the Board instructed the Chief Executive Officer (CEO), in conjunction with the Director of Children and Family Services (DCFS), the Auditor-Controller (Auditor) and the Director of Internal Services (ISD), to take the following actions: 1) Instructed the CEO and DCFS to determine the feasibility of establishing an automated inventory system and, as part of this review, should specifically explore the possibility of DCFS' participation in the eCAPS pilot (to be implemented in July 2008), and report back in 60 days; 2) Instructed the CEO to examine the possibility of creating a permanent Administrative Services Manager (ASM) III position to oversee DCFS' Procurement, and report back in time for consideration of the Fiscal Year 2007-08 Supplemental Budget in September; 3) Instructed the CEO to work with DCFS, ISD and County Counsel to determine possible contract violations by Corporate Express, and take legal action as necessary; 4) Instructed the CEO, ISD and Auditor to work together to conduct a training program within 120 days, and annually thereafter, for all Department procurement employees, supervisors and managers to reinforce County procurement policies and procedures; and 5) Instructed the Auditor to assess the need to conduct specialized procurement audits of County Departments and report back to the Audit Committee within 60 days.

We have been working with the Auditor, County Counsel, DCFS, and ISD to address the various issues identified by your Board in response to the recent audit of DCFS' procurement operation. The Department has made significant progress in addressing the many deficiencies identified by the Auditor and we feel confident that their efforts will bring the Department into compliance with County procurement guidelines. The status of each item and necessary actions to complete our response to your Board is outlined below.

Automated Inventory System

DCFS has been working with the Auditor to review various automatic inventory tracking systems utilized by other County Departments to determine the feasibility of establishing an effective tracking system for DCFS. Specifically, DCFS met with Probation to review the Department's bar code inventory system and is reviewing the automated systems currently used by the Departments of Public Social Services (DPSS) and Public Works (DPW). Based on their review, DCFS determined that a bar coding or similar system would assist the Department in managing its fixed assets and controlled equipment inventory, and will work with the Auditor and the Chief Information Office to develop specifications to procure a system for implementation. In addition, as part of this review, we determined that DCFS will be included in the eCAPS pilot specific to the inventory tracking component scheduled for implementation in July 2008. While these efforts alone will not solve DCFS' inventory problems, we believe these efforts are essential for the Department to properly manage and operate its procurement function.

Management Position to Oversee DCFS Procurement

On September 25, 2007, as part of the Supplemental Budget approved by your Board, we created a permanent Administrative Services Manager (ASM) III position to oversee DCFS' procurement operation. Based on our review of the Department's item control and current operating structure, we found that the ASM II position previously allocated to oversee the procurement operation was not the appropriate level to effectively manage the Department's procurement function and as a result, upgraded the item to an ASM III. The Department has filled this position and re-assigned two lower level managerial staff to the Procurement Section to provide oversight and appropriate separation of duties. The additional positions are responsible for supervising procurement staff, implementing quality control, and developing a procurement policies and procedures manual.

Potential Contract Violations

We have been working with the Auditor, County Counsel and ISD to determine if Corporate Express (CE) violated the terms and conditions of their purchasing Agreement with the County. This review consisted of two parts: 1) Pre-payment acceptance; and 2) Overcharging for toner cartridges, as described below.

While DCFS' prepayment practice was a violation of County Procurement and Fiscal policies and procedures, based on County Counsel's review, CE's acceptance of the prepayments does not represent a clear violation of the terms and conditions of their Agreement with the County. However, what this does represent is a serious lack of good judgment in terms of CE's business practices. Although we would expect County departments to comply with procurement and fiscal standards in this regard, there is also an expectation that our suppliers would adhere to the County's rules and processes. To this end, ISD will be amending this contract, as well as adding verbiage to all future contracts that specifically prohibits vendors from accepting prepayment without the expressed written approval from the County's Purchasing Agent.

As indicated in the Auditors Phase I review, not only did DCFS inappropriately purchase and warehouse an excessive amount of toner cartridges from CE, the Department was also overcharged for these toner cartridges (at non-agreement rates). Although DCFS did not follow requirements to verify and reconcile each vendor invoice against the respective purchase order and to validate the contract pricing before making payment, ISD will work with County Counsel to demand prompt reimbursement from CE for these overcharges. The reassigned managerial positions will allow DCFS to institute quality control processes and provide for adequate oversight and appropriate separation of duties to ensure proper verification and reconciliation of invoices to purchase orders.

Training for DCFS Procurement Staff

In September and October 2007, ISD provided two 2-day procurement requisition training classes to 24 DCFS procurement staff, supervisors, and managers. In addition, the Department has scheduled two additional Procurement Training classes from ISD in November and December 2007. DCFS will continue to work with ISD to provide as needed, but at minimum, annual ongoing procurement training for departmental managers and staff.

It should be noted that since Calendar year 2003, ISD has conducted 17 countywide Procurement Training sessions with over 430 employees (representing 28 County departments) in attendance. Consistent with your Board's instruction, ISD will continue to work with all County departments to schedule ongoing and annual refresher procurement training.

Each Supervisor
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Specialized Procurement Audits of County Departments

The Auditor has assessed the need to conduct specialized procurement audits of County departments and is reporting their recommendations directly to the Audit Committee under separate cover. The Auditor's recommendations are scheduled to appear on the Audit Committee's December 2007 agenda.

DCFS Audit Response

Attached for your information, is DCFS' response to the procurement audit conducted by the Auditor earlier this year. We have reviewed the Department's response and believe DCFS is taking appropriate actions to comply with the audit recommendations and to strengthen its procurement operation.

If you have any questions or need additional information, please contact me, or your staff may contact Brian Mahan at (213) 974-1318.

WTF:SRH:LN
GP:BM:lm

Attachment

c: Auditor-Controller
Department of Children and Family Services
Internal Services Department

**AUDIT RESPONSE
DEPARTMENT OF CHILDREN AND FAMILY SERVICES (DCFS)
PROCUREMENT REVIEW (PHASE I)**

PART I – INCREASED MANAGEMENT OVERSIGHT

RECOMMENDATION 1: Increase the level of management oversight over its procurement functions to ensure Procurement staff comply with County procurement and fiscal policies.

Response: We agree with this recommendation.

Status: Implemented - On May 21, 2007, DCFS re-assigned two strong managers from the Revenue Enhancement Division to assume daily management responsibilities for the Procurement Section; they have now been assigned permanently to Procurement. The previous manager over Procurement resigned. The Chief Executive Office (CEO) approved upgrading the existing Procurement Section manager position (Administrative Services Manager II) to Administrative Services Manager III and included the upgrade in the Supplemental Budget. The position has been filled. Additionally, DCFS redirected two lower level manager positions to Procurement to ensure sufficient manager positions are in place to provide adequate oversight and appropriate separation of duties.

RECOMMENDATION 2: Provide training on County procurement and fiscal policies and procedures where necessary, monitor staff for compliance, and take appropriate disciplinary action for staff who do not follow required fiscal and procurement policies.

Response: We agree with this recommendation.

Status: In progress

1. Internal Services Department (ISD) provided two 2-day trainings on procurement requisition entry on eCAPS to 24 Procurement staff, one training was held on September 10-11 and the other on September 19-20. DCFS' Training Section will conduct follow-up training. ISD also provided "Procurement 101" training to 30 DCFS staff, supervisors and managers on October 18 and 22.
2. The Procurement manager implemented a three-level approval process for all procurement requests, purchase orders, change orders and cancellations to ensure County fiscal and procurement policies are followed. Procurement staff were instructed verbally of the new process and written confirmation was provided in a memo. A Procurement policy/procedures handbook is being developed, and this memo is included in the handbook.

3. DCFS redirected a position to implement a quality assurance process involving a monthly random sample of no less than 5% of Procurement transactions to ensure compliance with County procurement and fiscal policies. The position will also be used to conduct a quality assurance process in Accounting Services (to ensure invoices are processed in compliance with County fiscal policies) and in Human Resources-Payroll (to ensure payroll transactions are processed appropriately), as well as to write policies/procedures for the Procurement operation if time permits.

DCFS will develop and implement the quality assurance process in Procurement by February 1, 2008.

4. DCFS engaged the services of a 120-day retiree (who teaches discipline for the Los Angeles County Training Academy) to evaluate the need for disciplinary action.

The retiree has reviewed Procurement staff personnel folders as well as material provided by the Auditor-Controller and the Office of County Investigations. Recommendations as to appropriate disciplinary actions were provided to DCFS on November 5 for five of the Procurement staff. The DCFS Procurement manager and Human Resources staff are proceeding with appropriate disciplinary actions.

RECOMMENDATION 3: In conjunction with Human Resources management, take appropriate disciplinary actions for staff who approved inappropriate transactions and/or intentionally violated County fiscal and procurement guidelines.

Response: We agree that appropriate disciplinary action should be taken.

Status: In progress - The DCFS Procurement manager and Human Resources staff are proceeding with appropriate disciplinary actions.

PART II - INAPPROPRIATE PURCHASES

RECOMMENDATION 4: Ensure Procurement and Finance Section staff immediately discontinue the practice of paying vendors for merchandise which has not been received.

Response: We agree with this recommendation.

Status: Implemented and ongoing.

1. Accounting Services has modified its cover memo to Program Managers indicating the Program Manager must sign the document to verify receipt of goods/services in order for the invoice to be paid.
2. Procurement staff were provided a memo on July 23, 2007 identifying corrective actions that need to be implemented immediately, including recommendation 4. The July 23 memo is included in the Procurement policy/procedures handbook being developed. The memo stated that failure to comply with County procurement and fiscal policies will result in disciplinary action up to and including discharge. Each employee was required to sign a statement acknowledging receipt and understanding of the memo and provided the link to the County websites for the County Fiscal Manual and ISD Policies and Procedures.
3. Accounting Services staff were provided a memo on August 16, 2007, along with the audit report, instructing staff to review and comply with the recommendations and specifically referencing this recommendation. The August 16 memo is included in the Accounts Payable policy/procedures handbook being developed.

Additionally, Accounting Services developed and implemented a Monthly Management Report (MMR) that will contain the results of the quality assurance reviews conducted in the prior month. This will ensure that the transactions not in compliance with County fiscal policies are identified immediately.

RECOMMENDATION 5: Provide its Procurement and Finance Sections with a written memo informing staff they are to immediately discontinue the practice of paying vendors for merchandise which has not been received, and that any future non-compliance with County fiscal and procurement policies and guidelines may result in disciplinary action up to and including discharge.

Response: We agree with this recommendation.

Status: Implemented - Accounting Services staff were provided a memo on August 16, 2007 along with the audit report, instructing staff to review and comply with the recommendations and specifically referencing this

recommendation. The August 16 memo is included in the Accounts Payable policy/procedures handbook being developed.

Procurement staff were provided a memo on July 23, 2007 indicating that failure to comply with audit recommendations and County fiscal and procurement policies will result in disciplinary action up to and including discharge. The July 23 memo is included in the Procurement policy/procedures handbook being developed.

RECOMMENDATION 6: Ensure the Department received credit for all prepayments reconciling vendor invoices to internal purchase records and recover funds from Corporate Express which have not been used.

Response: We agree with this recommendation.

Status: In progress - DCFS has requested specific, detailed information from the Auditor-Controller in order to research and reconcile with internal Corporate Express purchase records.

RECOMMENDATION 7: Consult with ISD and County Counsel to determine possible contract violations by Corporate Express and take appropriate action to penalize the vendor, if appropriation.

Response: We agree with this recommendation.

Status: In progress – Based on the review, Corporate Express' acceptance of the prepayments does not represent a clear violation of the terms and conditions of their agreement with the County. ISD is in the process of amending the existing agreement with this company, as well as adding verbiage to future agreements that will prohibit vendors from accepting prepayment for goods unless expressly approved (in writing) by the County Purchasing Agent. In addition, ISD will work with County Counsel to demand prompt reimbursement for overcharges identified in the Auditor's review.

RECOMMENDATION 8: Ensure Procurement staff do not purchase non-agreement supplies, using agreement POs, from agreement vendors.

Response: We agree with this recommendation.

Status: Implemented and ongoing - Procurement staff were instructed that non-agreement supplies cannot be purchased using agreement vendor purchase orders. A memo containing these instructions is included in the Procurement policy/procedures handbook being developed.

Additionally, implementation of the quality assurance process will ensure non-compliance is identified immediately.

RECOMMENDATION 9: Ensure Procurement Section complies with the agreement terms and submits a purchase requisition to ISD for non-

agreement purchases exceeding the Department's delegated authority of \$15,000.

Response: We agree with this recommendation.

Status: Implemented and ongoing - Procurement staff were provided a memo on July 23, 2007 identifying corrective actions that need to be implemented immediately, including recommendation 9. The July 23 memo is included in the Procurement policy/procedures handbook being developed. It should be noted that ISD has reduced DCFS' delegated authority to \$5,000.

Additionally, implementation of the quality assurance process will ensure non-compliance is identified immediately.

RECOMMENDATION 10: Provide its Procurement Section with a written memo informing staff of the requirements related to recommendations 8 and 9 above, and that any future non-compliance with County fiscal and procurement policies and guidelines will result in disciplinary action up to and including discharge.

Response: We agree with this recommendation.

Status: Completed - Procurement staff were provided a memo on July 23, 2007 indicating that failure to comply with audit recommendations and County fiscal and procurement policies will result in disciplinary action up to and including discharge. The July 23 memo is included in the Procurement policy/procedures handbook being developed.

RECOMMENDATION 11: Ensure Procurement Section solicits bids on high-volume dollar agreement purchases to obtain the lowest possible prices.

Response: We agree with this recommendation.

Status: Implemented and ongoing - Procurement staff were provided a memo on July 23, 2007 identifying corrective actions that need to be implemented immediately, including recommendation 11.

Procurement managers have developed a checklist of documents to verify that the lowest possible prices have been secured. It is required that the checklist be filed in the procurement folder in order to request a purchase order. The checklist is included in the policy/procedures Procurement handbook being developed.

Additionally, implementation of the quality assurance process will ensure non-compliance is identified immediately.

RECOMMENDATION 12: Ensure Procurement staff immediately discontinues the practice of ordering excessive quantities of supplies, and that supplies are ordered only when needed.

Response: We agree with this recommendation.

Status: Implemented and ongoing - Procurement staff were provided a memo on July 23, 2007 identifying corrective actions that need to be implemented immediately, including recommendation 12. The July 23 memo is included in the Procurement policy/procedures handbook being developed.

Additionally, implementation of the quality assurance process will ensure that the transactions not in compliance with County fiscal policy are identified immediately.

RECOMMENDATION 13: Provide its Procurement Section with a written memo informing staff to immediately discontinue the practice of ordering excessive quantities of supplies, that supplies should only be ordered when needed, and that any future non-compliance with County fiscal and procurement policies and guidelines will result in disciplinary action up to and including discharge.

Response: We agree with this recommendation.

Status: Completed - Procurement staff were provided a memo on July 23, 2007 identifying corrective actions that need to be implemented immediately, including recommendation 13, and indicating that failure to comply with audit recommendations and County fiscal and procurement policies will result in disciplinary action up to and including discharge. The July 23 memo is included in the Procurement policy/procedures handbook being developed.

Additionally, implementation of the quality assurance process will ensure that the transactions not in compliance with County fiscal policy are identified immediately.

RECOMMENDATION 14: Work with ISD to determine if the surplus items can be returned to the vendor(s), sold, or utilized by other County departments to minimize waste/loss.

Response: We agree with this recommendation.

Status: In progress – A person has been reassigned to handle disposal of surplus equipment. DCFS is working with ISD to determine which surplus items can be returned to the vendor(s), sold, or utilized by other County departments.

PART III – GIFT CARDS

RECOMMENDATION 15: Maintain perpetual inventory records for gift cards and have personnel with no other gift card responsibilities conduct physical inventories of the cards every six months.

Response: We agree with this recommendation.

Status: Implemented and ongoing - Staff have been temporarily reassigned to collect all unspent gift cards from throughout DCFS (which was completed in October 2007) and develop an inventory, and a person in the Deputy Director's office has been assigned to maintain the perpetual inventory on an ongoing basis. All gift cards have been inventoried. Additionally, DCFS is significantly reducing use of gift cards.

DCFS will conduct independent physical inventories of all gift cards every six months utilizing either in-house staff or contracted account-temp staff.

RECOMMENDATION 16: Ensure the functions of purchasing, receiving and distributing gift cards are adequately segregated.

Response: We agree with this recommendation.

Status: Completed - Procurement staff are responsible only for the purchase of gift cards. Responsibility for receiving and distributing gift cards was reassigned to the Deputy Director's office.

RECOMMENDATION 17: Periodically review perpetual inventory records for completeness/accuracy.

Response: We agree with this recommendation.

Status: Ongoing - Random spot checks of gift card inventory records will be conducted on a quarterly basis to ensure completeness/accuracy beginning in early 2008.

RECOMMENDATION 18: Ensure gift cards are adequately secured at all times and access is limited.

Response: We agree with this recommendation.

Status: Implemented and ongoing - Gift cards currently stored in the Deputy Director's office are secured at all times and access to the cards is very limited. DCFS issued a reminder to all regional operations and program staff that existing departmental policy requires gift cards be stored in their safes (each regional office has a safe). Random spot checks of gift card security will be conducted on a quarterly basis beginning in early 2008.

RECOMMENDATION 19: Require Procurement staff to utilize more secure delivery methods for gift card purchases (e.g., Registered Mail) to ensure only authorized personnel receive gift cards.

Response: We agree with this recommendation.

Status: Implemented and ongoing - Procurement staff were provided a memo on July 23, 2007 identifying corrective actions that need to be implemented immediately, including recommendation 19. The July 23 memo is included in the Procurement policy/procedures handbook being developed. Gift cards are being delivered using UPS or Federal Express.

RECOMMENDATION 20: Seek refunds from vendors if gift cards are no longer needed.

Response: We agree with this recommendation.

Status: Implemented and ongoing - A person has been reassigned to work with vendors to obtain refunds for gift cards that are no longer needed. Most vendors have been cooperative and provided refunds in spite of their policy of no refunds. As gift cards are obtained from regional operations and program managers and it is determined they are no longer needed, refunds are being pursued.

RECOMMENDATION 21: Ensure gift card transactions are adequately supported (e.g., requests for gift cards, receipt of gift cards and/or checks by regional office staff).

Response: We agree with this recommendation.

Status: In progress - Procurement staff were provided a memo on July 23, 2007 identifying corrective actions that need to be implemented immediately, including recommendation 21. The July 23 memo is included in the Procurement policy/procedures handbook being developed. Appropriate departmental procedures are being developed to ensure all gift card transactions are adequately documented. Random spot checks of gift card transactions will be conducted to ensure adequate documentation is maintained beginning in early 2008.

RECOMMENDATION 22: Ensure regional offices have sufficient controls in place to prevent misuse of gift cards.

Response: We agree with this recommendation.

Status: In progress - Appropriate departmental procedures are being developed to ensure appropriate controls are in place to prevent misuse of gift cards. Random spot checks of controls in regional offices and program offices will be conducted to ensure adherence to established controls beginning in early 2008.

RECOMMENDATION 23: DCFS management ensure that all gift card purchases are processed through Procurement with a purchase order and that they are not classified as miscellaneous charges.

Response: We agree with this recommendation.

Status: Implemented and ongoing - Procurement and Accounting Services staff have been instructed to ensure purchase orders are used to purchase gift cards and that gift card purchases are not to be classified as "miscellaneous charges." This instruction will be included in the policy/procedures handbooks being developed.

Additionally, implementation of the quality assurance process will ensure non-compliance is identified immediately.

PART IV - WAREHOUSING/INVENTORY

RECOMMENDATION 24: Ensure staff independent of Procurement conduct Department-wide physical inventories of warehouses and stock/supply rooms annually.

Response: We agree with this recommendation.

Status: In progress and ongoing - Physical inventories of storage sites and stock/supply rooms department-wide will be conducted annually by either departmental staff independent of Procurement or account-temp staff no later than May 2008 and every May thereafter.

RECOMMENDATION 25: Ensure staff periodically evaluates inventory for obsolescence.

Response: We agree with this recommendation.

Status: In progress and ongoing - Procurement staff were provided a memo on July 23, 2007 identifying corrective actions that need to be implemented immediately, including recommendation 25. The July 23 memo is included in the Procurement policy/procedures handbook being developed. Obsolete goods will be identified in the annual department-wide physical inventory processes beginning in May 2008 and every May thereafter.

RECOMMENDATION 26: Ensure perpetual inventory records are maintained and updated timely as additions and deletions occur.

Response: We agree with this recommendation.

Status: In progress and ongoing - Procurement staff were provided a memo on July 23, 2007 identifying corrective actions that need to be implemented immediately, including recommendation 26. The July 23 memo is included in the Procurement policy/procedures handbook being developed. Procurement staff are using Excel spreadsheets to maintain perpetual inventories until a better inventory system is identified and acquired. DCFS is working with the Auditor-Controller and the Department of Public Works (DPW) to include DCFS in the eCAPS pilot specific to the inventory tracking component scheduled for implementation in July 2008.

Additionally, random spot checks will be conducted periodically.

RECOMMENDATION 27: Ensure the functions of ordering, receiving, conducting physical inventories, and recording transactions are adequately segregated.

Response: We agree with this recommendation.

Status: Completed - The Procurement section has been restructured to ensure adequate separation of duties.

RECOMMENDATION 28: Ensure Procurement staff approves and forwards vendor invoices to Finance timely.

Response: We agree with this recommendation.

Status: Implemented and ongoing - Procurement staff were provided a memo on July 23, 2007 identifying corrective actions that need to be implemented immediately, including recommendation 28. The July 23 memo is included in the Procurement policy/procedures handbook being developed. The Procurement Section was restructured and now has a separate Receiving Unit which will approve and forward invoices to Accounting Services within 2 days of receipt.

Additionally, implementation of the quality assurance process will ensure non-compliance is identified immediately.

RECOMMENDATION 29: Inventory the offsite storage items and work with the ISD Surplus Property Coordinator to dispose of any obsolete/surplus items.

Response: We agree with this recommendation.

Status: In progress - A person was reassigned to handle disposal of obsolete/surplus equipment and goods stored at the offsite storage facility. All of the goods previously stored in the offsite storage facility have been relocated to a County facility and are in the process of being distributed to other County departments (including Probation, Sheriff, Public Defender and Community and Senior Services), sent to salvage, given to approved donation vendors, distributed to DCFS regional offices, or otherwise disposed. ISD and Probation have been extremely helpful in providing guidance and assistance to DCFS in this area. All remaining goods are being inventoried for future distribution to DCFS offices.

RECOMMENDATION 30: DCFS management ensure supplies and equipment inventories are properly secured and access is limited to authorized personnel.

Response: We agree with this recommendation.

Status: In progress - Procurement staff were provided a memo on July 23, 2007 identifying corrective actions that need to be implemented immediately, including recommendation 30. The July 23 memo is included in the Procurement policy/procedures handbook being developed. Departmental policies/procedures will be drafted and distributed to all departmental managers regarding securing and limiting access to supplies and equipment by March 2008. Additionally, random spot checks will be conducted to ensure non-compliance is identified immediately.

PART V – DISPOSAL OF SURPLUS/OBSOLETE ITEMS

RECOMMENDATION 31: Develop written procedures for the disposal of surplus property.

Response: We agree with this recommendation.

Status: In progress – The Department of Public Social Services (DPSS) has agreed to loan a person to DCFS to write surplus property policies/procedures defining departmental roles and responsibilities consistent with the Countywide Surplus Property Disposal Handbook. In the meantime, DCFS has requested other County departments for copies of their written procedures to use to jump start the process of developing internal DCFS procedures.

RECOMMENDATION 32: Work with ISD to collect the \$110,000 in auction proceeds from the auction company.

Response: We agree with this recommendation.

Status: In progress – ISD will work with County Counsel to demand payment from the auction company.

RECOMMENDATION 33: Ensure the Department's Surplus Coordinators complete all required auction documents and establish controls to account for future auction proceeds.

Response: We agree with this recommendation.

Status: In progress - The person reassigned to handle disposal of obsolete/surplus equipment has been and will continue completing all required documents and ensuring receipt of auction proceeds. DPSS has agreed to loan a person to DCFS to develop internal written policies/procedures to define departmental roles and responsibilities consistent with the Countywide Surplus Property Disposal handbook that will include procedures to ensure appropriate accounting of future auction proceeds.

Additionally, random spot checks will be conducted to ensure non-compliance is identified immediately.

RECOMMENDATION 34: Continue to ensure the Department's Surplus Coordinators have no procurement or fixed asset responsibilities.

Response: We agree with this recommendation.

Status: Completed - A person has been assigned to this function with no procurement or fixed asset responsibilities.

RECOMMENDATION 35: Periodically review disposed surplus/obsolete items for appropriateness and ensure the items were properly approved for disposal.

Response: We agree with this recommendation.

Status: Ongoing - Periodic reviews will be conducted beginning in July 2008 to ensure the appropriateness of the disposal and that proper approvals were obtained.

PART VI - COMPLIANCE WITH COUNTY PURCHASING GUIDELINES

RECOMMENDATION 36: Ensure purchases in excess of the Department's delegated purchasing authority are processed through ISD.

Response: We agree with this recommendation.

Status: Implemented and ongoing - Procurement staff were provided a memo on July 23, 2007 identifying corrective actions that need to be implemented immediately, including recommendation 36. The July 23 memo is included in the Procurement policy/procedures handbook being developed. On August 7, DCFS' delegated purchasing authority was decreased from \$15,000 to \$5,000. DCFS Procurement staff were notified verbally on that date and provided written confirmation on August 9.

Additionally, implementation of the quality assurance process will ensure non-compliance is identified immediately.

RECOMMENDATION 37: Ensure price quotes are obtained in accordance with County purchasing policies.

Response: We agree with this recommendation.

Status: Implemented and ongoing - Procurement staff were provided a memo on July 23, 2007 identifying corrective actions that need to be implemented immediately, including recommendation 37. The July 23 memo is included in the Procurement policy/procedures handbook being developed.

Procurement managers implemented a three-level approval process that will assist in ensuring price quotes are obtained consistent with County purchasing policies. Procurement staff were instructed verbally of the new process, and written confirmation was provided in a memo. This memo is included in the Procurement policy/procedures handbook being developed.

Additionally, implementation of the quality assurance process will ensure non-compliance is identified immediately.

RECOMMENDATION 38: Ensure sole source purchases are justified in sufficient detail and those over \$5,000 are processed through ISD as required.

Response: We agree with this recommendation.

Status: Implemented and ongoing - Procurement staff were provided a memo on July 23, 2007 identifying corrective actions that need to be implemented immediately, including recommendation 38. The July 23 memo is included in the Procurement policy/procedures handbook being developed. The Procurement Managers implemented a policy requiring their personal approval of all sole

source purchases to ensure sufficient justification is provided and processed according to County purchasing policies.

Additionally, implementation of the quality assurance process will ensure non-compliance is identified immediately.

RECOMMENDATION 39: DCFS management require Procurement to monitor frequently purchased items and notify ISD of items that may warrant a vendor purchasing agreement.

Response: We agree with this recommendation.

Status: In progress and ongoing - Procurement staff were provided a memo on July 23, 2007 identifying corrective actions that need to be implemented immediately, including recommendation 39. The July 23 memo is included in the Procurement policy/procedures handbook being developed. Procurement is in the process of developing a current list of frequently used commodities and specifications for those commodities that may warrant a vendor purchasing agreement. In the future, as additional items of frequently used commodities are identified, we will inform ISD.

RECOMMENDATION 40: DCFS management ensure that individual purchases are not split to stay under the Department's delegated purchasing authority by retraining all managers who authorize purchase requisitions and monitor compliance.

Response: We agree with this recommendation.

Status: In progress and ongoing - Procurement staff were provided a memo on July 23, 2007 identifying corrective actions that need to be implemented immediately, including recommendation 40. This was reinforced in the training provided by ISD on October 18 and 22. The July 23 memo is included in the Procurement policy/procedures handbook being developed.

Additionally, implementation of the quality assurance process will ensure non-compliance is identified immediately.

RECOMMENDATION 41: DCFS management require Procurement staff to review agreements prior to making purchases to ensure items are covered by the agreement and that the Department receives the negotiated prices and payment terms.

Response: We agree with this recommendation.

Status: In progress and ongoing - Procurement staff were provided a memo on July 23, 2007 identifying corrective actions that need to be implemented immediately, including recommendation 41. The July 23 memo is included in the Procurement policy/procedures handbook being developed. Procurement managers are developing a checklist to ensure items to be purchased are

covered by the agreement and that negotiated prices and payment terms are included. It will be required that the checklist be filed in the procurement folder in order to request a purchase order. The checklist will be finalized by the end of November 2007.

Additionally, implementation of the quality assurance process will ensure non-compliance is identified immediately.

RECOMMENDATION 42: DCFS management ensure Finance staff match invoices with purchase orders and receiving reports prior to paying vendors.

Response: We agree with this recommendation.

Status: Implemented and ongoing - The Accounting Services manager was provided a memo on July 19, 2007 identifying corrective actions that need to be implemented immediately, including recommendation 42. Accounting Services staff were provided a memo on August 16, 2007 along with the audit report, instructing staff to review and comply with the recommendations and specifically referencing this recommendation. This information is included in the Accounts Payable policy/procedures handbook being developed.

Additionally, Accounting Services developed and implemented a Monthly Management Report (MMR) that will contain the results of the quality assurance reviews conducted in the prior month. This will ensure that the transactions not in compliance with County fiscal policy are identified immediately.

RECOMMENDATION 43: DCFS management ensure DCFS maximizes cash discounts and that payments are made to vendors within 30 days.

Response: We agree with this recommendation.

Status: Implemented and ongoing - The Accounting Services manager was provided a memo on July 19, 2007 identifying corrective actions that need to be implemented immediately, including recommendation 43. Accounting Services staff were provided a memo on August 16, 2007 along with the audit report, instructing staff to review and comply with the recommendations and specifically referencing this recommendation. This information is included in the Accounts Payable policy/procedures handbook being developed.

Additionally, Accounting Services developed and implemented a Monthly Management Report (MMR) that will contain the results of the quality assurance reviews conducted in the prior month. This will ensure that the transactions not in compliance with County fiscal policy are identified immediately.

RECOMMENDATION 44: DCFS management ensure Finance staff periodically reviews the eCAPS pending/rejected files to identify and resolve transactions that have been in these files for extended periods.

Response: We agree with this recommendation.

Status: Implemented and ongoing - In October 2007, a process was implemented in which unresolved transactions in the eCAPS pending/rejected files are reviewed and appropriately completed within acceptable timeframes. The process incorporates a mechanism that links the level of the managerial notification/involvement required to the length of time the matter remains unresolved.

RECOMMENDATION 45: DCFS management ensure Finance marks invoices "paid" to prevent reuse.

Response: We agree with this recommendation.

Status: Implemented and ongoing - The Accounting Services manager was provided a memo on July 19, 2007 identifying corrective actions that need to be implemented immediately, including recommendation 45. Accounts Payable staff were provided written notification of the requirement that invoice be marked "paid". This information is included in the Accounts Payable policy/procedures handbook being developed.

Additionally, Accounting Services developed and implemented a Monthly Management Report (MMR) that will contain the results of the quality assurance reviews conducted in the prior month. This will ensure Accounts Payable staff remain in compliance with County fiscal policy. Implementation of the quality assurance process will also ensure compliance.

PART VII - INTERNAL CONTROL CERTIFICATION PROGRAM

RECOMMENDATION 46: DCFS management ensure that the ICCP questionnaires are accurately completed by conscientious, qualified staff independent of the function for all application assessable units, that all weaknesses are identified, and that an improvement plan is developed to address each internal control problem identified.

Response: We agree with this recommendation.

Status: Implemented and ongoing - Small on-site group ICCP trainings will be conducted throughout the Department. The Internal Controls unit will conduct on-site visits to sample 5 percent of the responses reflected in each office's ICCP report to ensure accuracy beginning in January 2008. Internal Controls will ensure Summary of Weaknesses and Proposed Improvement Plans are thorough and accurately completed and ensure follow-up.

PART VIII - OPERATIONAL EFFICIENCY

RECOMMENDATION 47: Ensure supply requests are combined where possible and limit the number of staff authorized to order supplies.

Response: We agree with this recommendation.

Status: In progress and ongoing – DPSS has agreed to loan a person to DCFS to develop internal written policies/procedures which will include limiting the number of staff authorized to order supplies and require a manager at an appropriate level to approve supply requests.

RECOMMENDATION 48: Ensure staff periodically evaluate and anticipate supply needs and submit requests timely to reduce emergency supply requisitions.

Response: We agree with this recommendation.

Status: In progress and ongoing - DPSS has agreed to loan a person to DCFS to develop internal written policies/procedures which will include instructions for offices to anticipate their needs to reduce emergency requisitions.

RECOMMENDATION 49: Closely monitor implementation of the eCAPS inventory module at DPW and implement it at the earliest opportunity.

Response: We agree with this recommendation.

Status: Pending - DPW is scheduled to implement the eCAPS inventory module in July 2008. DCFS is working with the Auditor-Controller and DPW to include DCFS in the eCAPS pilot specific to the inventory tracking component scheduled for implementation in July 2008.

RECOMMENDATION 50: Ensure staff receive appropriate computer training and require all Procurement staff to attend ISD's Countywide Procurement Training program.

Response: We agree with this recommendation.

Status: In progress - Procurement management is working with DCFS' Training Section to schedule Excel training. ISD provided two 2-day eCAPS procurement requisition training sessions to 24 Procurement staff, one on September 10-11 and one on September 19-20 and provided "Procurement 101" training to 30 DCFS staff, supervisors and managers on October 18 and 22. DCFS' Training Section will conduct follow-up training to ensure Procurement staff have a good understanding of eCAPS.

RECOMMENDATION 51: Consider placing a permanent manager at or equivalent to ASM III over the Procurement Section.

Response: We agree with this recommendation.

Status: Implemented - On May 21, 2007, DCFS re-assigned two strong managers from the Revenue Enhancement Division to assume daily management responsibilities for the Procurement Section. The previous manager over Procurement resigned. The Chief Executive Office (CEO) approved upgrading the existing Procurement Section manager position (Administrative Services Manager II) to Administrative Services Manager III and included the upgrade in the Supplemental Budget. The ASM III position has been filled. Additionally, DCFS redirected two lower level manager positions to Procurement to ensure sufficient manager positions are in place to provide adequate oversight and appropriate separation of duties.