COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER

KENNETH HAHN HALL OF ADMINISTRATION
500 WEST TEMPLE STREET, ROOM 525
LOS ANGELES, CALIFORNIA 90012-3873
PHONE: (213) 974-8301 FAX: (213) 626-5427

WENDY L. WATANABE
AUDITOR-CONTROLLER

ASST. AUDITOR-CONTROLLERS

ROBERT A. DAVIS
JOHN NAIMO
JAMES L. SCHNEIDERMAN
JUDI E. THOMAS

September 28, 2011

TO: Supervisor Michael D. Antonovich, Mayor
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Don Knabe

FROM: Wendy L. Watanabe
Auditor-Controller

SUBJECT: **REGISTRAR-RECORDER/COUNTY CLERK PURCHASING AND CONTRACTING REVIEW**

In 2007, based on issues noted in our review of procurement in one County department, your Board instructed the Auditor-Controller to develop a risk-based plan to audit procurement operations at all County departments. In accordance with the developed plan, we completed a review of the Registrar-Recorder/County Clerk's (RR/CC or Department) compliance with County procurement policies and procedures. We also reviewed the RR/CC's compliance with County and Departmental contracting guidelines. Our review covered areas such as purchasing and payment controls. We also evaluated RR/CC's controls over its revolving funds and contracts.

Summary of Findings

We noted that RR/CC's purchases were appropriate and necessary for the Department's operations. However, RR/CC management needs to ensure the Department complies with County purchasing requirements. The following are examples of areas for improvement, along with RR/CC's responses to each recommendation:

- RR/CC management should ensure Procurement staff review vendor agreements before ordering items to verify the items are covered by the agreement, and that the Department receives the negotiated price.

We reviewed 20 agreement purchases, totaling approximately $1.2 million, and noted four (20%) instances, totaling $103,000, where the RR/CC purchased non-agreement items, including some election materials, from agreement vendors, without obtaining the required price quotes. This may have resulted in RR/CC not receiving the best price on these items.

We also noted that, for four (20%) of the agreement purchases, the Department did not ensure they received the agreement prices, resulting in potential overpayments totaling $15,000.

RR/CC management indicated that, for one of the four purchases, they did receive the agreement price, and that the additional charges, totaling approximately $13,000, were for "expedited" processing to meet RR/CC's delivery timeframes. However, the invoice only showed the higher item prices, and did not indicate they were due to expedited delivery charges.

RR/CC Response – RR/CC's response indicates that they generally agree with the recommendation, and have implemented procedures to ensure compliance.

- RR/CC management should re-evaluate their revolving fund balances, and comply with County guidelines for using revolving funds. The Department maintained an excessive balance in their petty cash fund, inappropriately deposited departmental collections into their petty cash checking account, and only performed cash counts semi-annually, instead of the quarterly counts required by County policy.

  The Department indicated that they believe that their petty cash balance is needed to pay for unanticipated expenses, such as for election-related supplies. However, since the Department averaged less than $200 in monthly expenditures from the $2,710 petty cash fund, we continue to believe that the balance is excessive.

  RR/CC Response – RR/CC indicated they will continue to monitor and adjust the revolving fund balance based on operating needs. The Department also indicated the deposit of department collections into the petty cash checking account was a one-time incident, and that they have taken action to prevent future occurrences. The Department also indicated they implemented revised procedures and now conduct quarterly cash counts.

- RR/CC Contracting staff should ensure that contractors provide documentation of required insurance coverage. RR/CC allowed two contractors to continue providing services without documentation that they had all required insurance coverage. One contractor's professional liability insurance had expired, and the other had $100,000 in Workers' Compensation insurance, instead of the required $1 million. The Department did not obtain proof of the required coverage from the vendors for 11 and 12 months, respectively.

RR/CC Response – RR/CC indicated that they work closely with contractors to ensure compliance with County contract requirements. However, the Department indicated that these two contractors performed critical services, and that halting services until they provided documentation of insurance coverage would have adversely impacted the Department's main mission. RR/CC also indicated that both contractors did provide documentation of some insurance certification. However, they needed to make some changes to the policies to ensure they had the necessary coverage. RR/CC management indicated that in the future, the Department will ensure that contractors have acceptable insurance coverage.

Although this report is a review of the RR/CC's procurement operations, we recommend that other County departments review the findings in this report and ensure the necessary controls are in place.

The detailed results of our review and recommendations for corrective action are discussed in Attachment I.

Review of Report

We discussed the results of our review with RR/CC management. The Department's response (Attachment II) indicates general agreement with most of the findings and recommendations. The Department's response also indicates that they strive to ensure compliance with all County policies and procedures, and will continue to implement strategies to address the findings and recommendations of the audit.

In order to help RR/CC take corrective action as soon as possible, we discussed the results of our review with RR/CC management/staff as we completed our testwork and at the end of fieldwork. As a result, some of the corrective actions reported by RR/CC in their response took place in prior years.

We thank RR/CC management and staff for their cooperation and assistance during our review. Please call me if you have any questions, or your staff may contact Mike Pirolo at (213) 253-0105.

WLW:JLS:MP

Attachments

c: William T Fujioka, Chief Executive Officer
Ellen Sandt, Deputy Chief Executive Officer, Operations
Dean C. Logan, Registrar-Recorder/County Clerk
Tom Tindall, Director, Internal Services Department
All Department Heads
Public Information Office
Audit Committee

REGISTRAR-RECORDER/COUNTY CLERK
PURCHASING AND CONTRACTING REVIEW

Background and Scope

The Registrar-Recorder/County Clerk's (RR/CC or Department) Procurement Section is responsible for the purchasing functions of the Department, and the Accounts Payable (A/P) Section is responsible for verifying purchases and processing payments. The Contracts Unit is responsible for administrative, fiscal and program monitoring for the Department's service contracts. RR/CC's Fiscal Year (FY) 2009-10 services and supplies budget was approximately $61 million.

We reviewed the Department's procurement and contracting practices, and revolving fund use for compliance with County and Departmental policies and procedures. Our review included interviewing Procurement personnel and vendors, evaluating purchasing and payment controls, and reviewing a sample of purchases, contracts and revolving fund transactions.

COMMENTS AND RECOMMENDATIONS
PURCHASING

Non-Agreement and Agreement Purchases

Internal Services Department (ISD) establishes agreements with vendors for commonly purchased items; these vendors are referred as agreement vendors. Departments can purchase items covered by ISD agreements without a transaction limit, and do not need to obtain price quotes for items covered by the agreements. Departments should not use the agreements to purchase items that are not covered by the agreements (non-agreement items) because there is no assurance that the County will receive the best price.

ISD also delegates authority to departments to purchase non-agreement items, up to set limits. For items under $1,500 RR/CC has delegated authority to make the purchases without having to get price quotes. For non-agreement purchases from $1,500 to $15,000, RR/CC is required to obtain three price quotes, unless the item is only available from one vendor and cannot be easily substituted (sole source purchases). For items over $15,000, ISD obtains the price quotes, selects a vendor, sets up a direct purchase order, and orders the items from the vendor. Although State Code allows the RR/CC to purchase election materials and services for any amount without involving ISD, the Department must still obtain the required price quotes for items over $1,500. We reviewed a sample of RR/CC's purchases and noted the following:

- **Use of Vendor Agreements** – We reviewed 20 agreement purchases, totaling approximately $1.2 million, and noted four (20%) instances, totaling $103,000, where the RR/CC purchased non-agreement items, including some election

materials, from agreement vendors. While the Department did not exceed their delegated authority, we noted that they did not obtain price quotes for these non-agreement items to ensure they received the best price.

We also noted for four (20%) agreement purchases, the Department did not ensure they received the negotiated agreement prices, resulting in potential overpayments totaling $15,000. RR/CC management indicated that they received the agreement price for one of the purchases, and that the additional charges, totaling approximately $13,000, were for "expedited" vendor processing to meet urgent delivery timeframes. However, the Department could not provide documentation that the higher costs were to expedite the delivery of the order.

- **Price Quotes and Sole Source Purchases** – The RR/CC did not obtain the required price quotes for any of the three election material/service purchases. As noted earlier, while the State Election Code allows the Department to purchase election materials and services for any amount without involving ISD, the Department is still required to get bids.

  In addition, for two (40%) of the five sole source purchases we reviewed, the Department did not document the sole source justification.

Recommendations

RR/CC management:

1. **Ensure Procurement staff review vendor agreements before buying items to verify items are covered by the agreement, and that the Department receives the negotiated price.**

   RR/CC Response:

   We agree with the recommendation and are in compliance. As of January 2009, the Department instituted enhanced procedural changes, and as of July 1, 2010, the Department implemented eCAPS Procurement Module that will assist with ensuring compliance with this recommendation.

2. **Ensure Procurement staff obtain price quotes as required by County purchasing policies, and maintain documentation justifying sole source purchases.**

   RR/CC Response:

   We agree with the recommendation and are in compliance. As of January 2009, Procurement began attaching copies of the documentation with the payment files. Furthermore, as of July 2, 2010, the Department implemented

eCAPS Procurement Module that will assist with ensuring compliance with this recommendation.

General Purchasing and Payment Controls

County purchasing guidelines require departments to obtain approved requisitions before ordering goods and services, verify that goods/services were received before paying vendors, and ensure that vendors are paid in a timely manner. We reviewed 35 purchases made over a six-month period, totaling approximately $2.3 million, and noted the following:

- **Purchase Requisitions** – County Fiscal Manual (CFM) Section 5.1.2 requires appropriate supervisory approval before ordering services and supplies The RR/CC placed four (11%) of the 35 orders, totaling $692,000, without an approved requisition, including two orders where the RR/CC could not provide a purchase requisition. While these purchases appeared appropriate and the Department indicated these purchases were verbally approved, RR/CC management should ensure that Department staff prepare, and managers approve, requisitions before purchases are made, and that Procurement keeps copies of the approved requisitions.

- **Timeliness of Payments** – CFM Section 4.5.13 requires department to pay vendors within 30 days of receiving the invoice. The RR/CC paid 12 (34%) of the 35 payments reviewed an average of 27 days late. The late payments were generally due to delays in collecting purchasing documentation. While the late payments did not result in any lost discounts, RR/CC management should ensure that vendors are paid within 30 days of receiving the invoice.

Recommendations

RR/CC management:

3. **Ensure that Departmental staff prepare and managers approve requisitions before purchases are made, and that the approved requisitions are filed with other payment documentation.**

   RR/CC Response:

   We agree with the recommendation. As of early 2009, the Department implemented procedural enhancements to the Services and Supplies Requisition process. In addition, the eCAPS Procurement Module implemented in July 2010 will assist in ensuring compliance with this recommendation.

4. **Ensure vendors are paid within 30 days of receiving the invoice.**

RR/CC Response:

We agree with the recommendation. The Department implemented a new and improved tracking system and follow-up process to ensure invoices are processed for timely vendor payments. In addition, the eCAPS Procurement Module implementation provides added benefits in ensuring compliance with this recommendation.

eCAPS Security Access

The County's enterprise accounting system (eCAPS) allows authorized departmental personnel to initiate and approve payment transactions online. To reduce the risk of abuse, departments should periodically review their eCAPS users' access to ensure it is appropriate.

We reviewed the Department's eCAPS user list, and noted two users have multiple approval capabilities, which is prohibited by CFM Section 4.5.5.

Recommendation

5. **RR/CC management develop procedures to periodically review the Department's eCAPS users to ensure compliance with the County Fiscal Manual.**

RR/CC Response:

We agree with the recommendation and are in compliance. As of March 2009, the eCAPS User Access list was updated, and will be monitored periodically to ensure eCAPS approval capabilities are appropriate.

Vendor Codes

To facilitate payments and IRS 1099 reporting requirements, CFM Sections 4.5.8 and 4.5.9 require departments to establish a specific vendor code for vendors used for purchases over $600, even if a vendor is only used once.

We reviewed miscellaneous vendor code transactions for FY 2008-09, and identified 14 payments to 12 vendors where the Department should not have used miscellaneous vendor codes. RR/CC management should ensure staff establish specific vendor codes in accordance with County policies.

Recommendation

6. **RR/CC management ensure staff establish specific vendor codes in accordance with County policies.**

RR/CC Response:

We agree with the recommendation and are in compliance. As of December 2009, we have added all the vendor identified to the vendor list and have restricted the use of miscellaneous vendor codes to issue payments.

REVOLVING FUNDS

A revolving fund is a set amount of money kept by departments to make small payments, change funds, refunds, etc. RR/CC has one revolving fund, totaling $20,000, which is allocated into one $2,710 petty cash sub-assignment, and 12 other sub-assignments, totaling $17,290.

We reviewed the RR/CC's revolving fund and noted the following:

- The Department's petty cash sub-assignment is excessive. CFM Section 1.6.4 states that each revolving fund balance should be equal to approximately one-month's expenditures. We noted that RR/CC spends less than $200 a month from their $2,710 petty cash sub-assignment.

  RR/CC management indicated that they believe that their petty cash amount is needed to pay for potential unanticipated expenses, such as for election-related supplies. However, based on the fund's usage and, since maintaining excessive revolving fund balances increases the risk of loss, we continue to believe that the balance is excessive.

- The RR/CC inappropriately deposited $1,300 in collections for a conference they hosted into their petty cash checking account. CFM Section 1.2.3 prohibits depositing collections/revenues into revolving/petty cash funds. The Department should have deposited the collections into their Departmental Trust Fund account instead.

- The Department performs surprise cash counts for their fund assignments over $200 only twice a year, instead of quarterly as required by CFM Section 1.6.3.

These weaknesses may be due to fund custodians not always being aware of revolving fund guidelines. RR/CC management should determine the appropriate amount for their petty cash fund, and return excess funds to the Auditor-Controller's Accounting Division. RR/CC management should also provide training on County revolving fund policies and procedures where necessary, monitor for compliance, and perform surprise cash counts at least quarterly.

Recommendations

RR/CC management:

7. **Determine the appropriate amount for their petty cash fund, and return excess funds to the Auditor-Controller's Accounting Division.**

   RR/CC Response:

   We agree with this recommendation. Although the monthly expenses averaged $200 for the period reviewed, the Department maintains an adequate fund balance to pay for unanticipated election-related expenses. However, the Department will continue to monitor and adjust fund balances as necessary based on operating needs.

8. **Provide training on County revolving fund policies and procedures where necessary and monitor for compliance.**

   RR/CC Response:

   We agree with the recommendation and are in compliance. Although the $1,300 in collections for a City Clerk conference we hosted was temporarily deposited into the Department's revolving fund checking account pending the establishment of a trust account, we have since established and transferred the funds into a trust account. As of April 2009, the Fiscal Compliance Section conducted training on County revolving fund policies and procedures and regularly monitors for compliance.

9. **Perform surprise cash counts at least quarterly.**

   RR/CC Response:

   We agree with the recommendation and are in compliance. As of July 1, 2010, the Fiscal Compliance Section implemented a quarterly surprise cash count of the Department's Revolving funds and sub-assignments (change funds) of over $200.

CONTRACTING

RR/CC administers over 40 service contracts, totaling more than $75 million over the lives of the contracts, for voting equipment maintenance, software development and other services.

Contract Compliance

The RR/CC requires contractors to provide evidence of insurance coverage, such as general liability insurance, automobile liability insurance, etc. This insurance is necessary to minimize the County's risk against claims that could arise from contractor activities.

We reviewed five contracts, and noted two (40%) instances where the Department allowed the contractors to continue services without documentation that they had all required insurance coverage. For example, one contractor's professional liability insurance had expired, and the other had Workers' Compensation insurance of $100,000, instead of the required $1 million. RR/CC did not obtain proof of appropriate coverage from the vendors for 11 and 12 months, respectively.

To minimize potential County liability, RR/CC management should ensure that contractors have all required insurance before starting work.

Recommendation

10. RR/CC management ensure that contractors have documentation of all required insurance before starting work.

RR/CC Response:

We agree. RR/CC Contracts staff will continue to work closely with contractor to ensure compliance with County contract requirements. However, on occasion, if the insurance certification falls a little short, the Department must weigh the ramifications of temporarily halting the contractor services. In the two instances cited, the contractors provided insurance certifications; however, some changes were necessary to be in full compliance. RR/CC Contracts staff were already working with contractors to resolve the specific issues with their insurance certifications. Both contractors perform critical services that would have adverse impact on the Department's main mission if services were halted. One issue was resolved during the audit process on March 6, 2009 and the other on June 22, 2009. Nonetheless, Contracts staff will work closely with Operations staff to ensure contractors are not allowed to start work before the required insurance certification is receive and accepted in the Contacts Section.

Conflict of Interest/Confidentiality Agreements

ISD's Service Contracting Manual Section 7.7.1 indicates that all contract bid/proposal evaluators should sign a Conflict Of Interest/Confidentiality Agreement form to minimize actual or perceived bias. We reviewed four contract solicitations, and noted one (25%) instance where the Department could not provide a signed Conflict of Interest/Confidentiality Agreement from each evaluator.

RR/CC management indicated that, because the incumbent contractor submitted the only proposal, they determined completion of the form was not required. However, since part of the purpose of the form is to protect materials against disclosure and distribution, the Department should ensure that all contract evaluators sign a Conflict of Interest/Confidentiality Agreement and keep the forms in the contract solicitation files.

Recommendation

11. **RR/CC management ensure all contract evaluators sign a Conflict of Interest/Confidentiality Agreement and keep the forms in the contract solicitation files.**

RR/CC Response:

We agree with the recommendation. The Department's Contract Section has implemented procedural improvement to utilize a new and enhanced "Conflict of Interest" form with all contract solicitations.

INTERNAL CONTROL CERTIFICATION PROGRAM

The Auditor-Controller developed the Internal Control Certification Program (ICCP) to assist County departments in evaluating and improving internal controls over fiscal operations. Departments must review and evaluate controls in key fiscal areas and certify that proper controls are in place or that action is being taken to correct any deficiencies or weaknesses noted.

Many of the issues we noted in RR/CC's procurement and revolving fund operations should have been identified when RR/CC completed the ICCP for FY 2008-09. RR/CC management should ensure that ICCP questionnaires are accurately completed, all internal control weaknesses are identified and an improvement plan is developed to address each weakness.

Recommendation

12. **RR/CC management ensure that the ICCP questionnaires are accurately completed, all internal control weaknesses are identified, and an improvement plan is developed to address each weakness.**

RR/CC Response:

We agree. Prior to 2009, each assessable unit self-identified weaknesses and the corrective action plan. Effective FY 2009-10, the RR/CC's Fiscal Compliance Section reviews the ICCP for each assessable unit.

Attachment II

COUNTY OF LOS ANGELES
REGISTRAR-RECORDER/COUNTY CLERK
12400 Imperial Highway – P.O. Box 1024, Norwalk, California 90651-1024 – www.lavote.net

DEAN C. LOGAN
Registrar-Recorder/County Clerk

February 17, 2011

To: Wendy L. Watanabe
Auditor-Controller

From: Dean C. Logan
Registrar-Recorder/County Clerk

RESPONSE TO PURCHASING AND CONTRACT REVIEW

The Registrar-Recorder/County Clerk strives to ensure compliance with all County policies and procedures. The Purchasing and Contract Review draft report prepared by your Office allows us the opportunity to review and strengthen our internal controls, while ensuring our ability to serve Los Angeles County residents. We welcome the opportunity to institute process enhancements that will continue to ensure our compliance with County policies and procedures and thank you for the feedback provided in the attached report.

We have responded to all of the recommendations identified in the attached draft report and will continue to implement strategies designed to address the findings and recommendations of the audit. As a result of the implementation of eCAPS Procurement by our Department, purchasing guidelines were revised to include new processes that we believe will continue to enhance adherence to County purchasing practices.

We appreciate the professional manner in which your staff conducted this review. If you have any questions, please let me know, or your staff may contact Kathleen Connors, Assistant Registrar-Recorder/County Clerk, Administration at (562) 462-2636.

DCL:DM
KC:lm

c: Ellen Sandt