

AUDITOR-CONTROLLER/ TREASURER/TAX COLLECTOR



COUNTY OF SAN BERNARDINO

LARRY WALKER
Auditor-Controller/
Treasurer/Tax Collector

- 222 West Hospitality Lane, Fourth Floor
San Bernardino, CA 92415-0018 • (909) 387-8322 • Fax (909) 386-8830
- 172 West Third Street, First Floor
San Bernardino, CA 92415-0360 • (909) 387-8308 • Fax (909) 387-6716

January 24, 2013

Christine Kelly, Director
Land Use Services
385 North Arrowhead Avenue, 1st Floor
San Bernardino, CA 92415-0182

SUBJECT: LAND USE SERVICES CALCARD BIDDING COMPLIANCE AUDIT

Introductory Remarks

In compliance with Article V, Section 6, of the San Bernardino County Charter and County Policy 02-02 on Internal Operational Auditing, we have completed an audit of Land Use Services CalCard Bidding Compliance. Our audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing established by the Institute of Internal Auditors.

Objectives, Scope and Methodology

Our objective was to verify that CalCard purchases made by the Land Use Services department were supported with either a Non-Competitive Justification Form as required by the Procurement Manual or at least three bids were obtained as required by the Procurement Card Program Procedure Manual. We reviewed the department's documentation for all CalCard charges made from January 1, 2012 through June 30, 2012.

Conclusion

As a result of our review, we concluded that the Land Use Services department did acquire 3 quotes in 13 of the 63 purchases reviewed. However, the department did not complete the mandatory Non-Competitive Justification Form when three bids were not obtained. Therefore, the department is out of compliance with the Procurement Manual and the County's Procurement Card Program Procedure Manual.

We have listed our observations and our recommendation for improvement in the Finding and Recommendation section of this report.

We sent a draft report to the department on November 30, 2012 and discussed our observations with management on December 12, 2012. The department's response to our recommendation is included in this report.

Finding and Recommendation

Finding: Procurement Processes when using CalCards should be improved

The Procurement Manual states on page 5, "A mandatory Non-Competitive Justification Form must be completed and attached to all requisitions for non-competitive purchases", and the Procurement Card Program Procedural Manual states on page 2 "As with any purchase, at least three (3) competitive quotes should be obtained. A record of the quotes should be maintained by the department."

The Department obtained three quotes in 13 of the 63 items reviewed. In the remaining 50 items reviewed, the Department did not obtain three quotes or complete the Non-Competitive Justification Form. The department was not aware of the mandatory Non-Competitive Justification Form requirement for any purchases that did not have the required three competitive quotes. The risk of fraud and the County not obtaining the best value for each dollar expended is increased when these Purchasing policies are not followed.

Recommendation:

Management should ensure staff is knowledgeable of County policies necessary to perform their responsibilities, specifically the Procurement Manual and the Procurement Card Program Procedural Manual. In addition, management must monitor staff to ensure adherence to procurement policies and procedures, specifically by obtaining three quotes or completing the mandatory Non-Competitive Justification Form for all CalCard purchases.

Management's Response:

In response to the audit letter dated November 13, 2012, and the subsequent audit exit conference on December 12, 2012, the Land Use Services Department (Department) will complete the *Non-Competitive Justification Form* (Form) provided by the Purchasing Department whenever competitive bids are not obtained, per the Auditor-Controller/Treasurer/Tax Collector's guidance.

During the audit exit conference, Department staff informed the auditor's that the Purchasing Department's procedures were ambiguous inconsistent. In the *Procurement Manual* (Manual), under "Section 5 – Non-Competitive Procurement," the introduction paragraph states that "there are occasions when this [competitive] process may not be prudent or cost effective." The next paragraph also states that "A Mandatory Non-Competitive Justification Form must be completed and attached to all requisitions for Non-Competitive purchases." A requisition is defined in the Manual as items that are submitted to Purchasing for approval (page 48). In the case of Procurement Card purchases,

Purchasing approval is not required, and therefore, the Department interpreted that the Form does not need to be completed. Although the Form was not completed, the Department believes that it has adequate documentation to justify all purchases and strong internal control procedures to reduce the risk of fraud.

Additionally, on the Form, found on page 6 of the Manual, it is stated in the instructions that "if purchase is less than \$7,500 – department will maintain justification and provide to Purchasing upon request." Per the Department's interpretation, the instructions do not require the Department to complete the Form for purchases under \$7,500, but instead requires the maintenance of some justification that must be available upon request, which the Department believes it has maintained and provided.

Due to these inconsistencies, the Form in question was not completed by the Department whenever purchases occurred without competitive bidding. Other forms of documentation and justification were maintained and provided upon request. The auditor's agreed with the Department's opinion that the Manual is ambiguous and inconsistent, and suggested that they would "prefer to see the Form" completed anyway for all future purchases where competitive bids are not obtained.

Auditor's Response:

The Department has implemented policy that will correct the deficiencies noted in the finding.

The Department's choice when using CalCard procurements, is to either obtain 3 quotes or to document why it did not obtain three quotes. The auditors examined the evidence provided by the Department and found support only for purchase authorization—not justification for non-competitive procurement. Since CalCard procurements are a subset of County procurement, the Department should have used the Procurement Manual's documentation requirements for non-competitive procurements.

The auditors disagree with the Department's characterization that the Manual is ambiguous and inconsistent. The Manual's text clearly states that "A Mandatory Non-Competitive Justification Form must be completed and attached to all requisitions for non-competitive purchases." However, the form's instructions for purchases of less than \$7,500 do not state the requirement "the department will complete form" as stated for purchases of \$7,501 or more. The auditors further note that the form omits instructions for a purchase of exactly \$7,500.

Thank you very much for the cooperation extended by your staff during the course of this audit.

Respectfully submitted,

Larry Walker
Auditor-Controller/Treasurer/Tax Collector

By:

Mark Cousineau, CPA, CIA, CFE, CGAP, CGFM, CITP, CRMA
Chief Deputy Auditor
Internal Audit Division

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