

# THIRD-PARTY RISKS (GRANTS AND CONTRACT MANAGEMENT AUDIT) – DEPARTMENT OF PUBLIC WORKS

*FINAL REPORT*



Chief of Audits: Juan R. Perez  
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AUDITOR AND CONTROLLER

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JUAN R. PEREZ  
CHIEF OF AUDITS

November 20, 2023

TO: Derek Gade, Director  
Department of Public Works

FROM: Juan R. Perez  
Chief of Audits

**FINAL REPORT: THIRD-PARTY RISKS (GRANTS AND CONTRACT MANAGEMENT AUDIT)  
– DEPARTMENT OF PUBLIC WORKS**

Enclosed is our report on the Third-Party Risks (Grants and Contract Management Audit) – Department of Public Works. We have reviewed your response to our recommendations and have attached it to the audit report.

The actions taken and/or planned, in general, are responsive to the recommendations in the report. As required under Board of Supervisors Policy B-44, we respectfully request that you provide quarterly status reports on the implementation progress of the recommendations. You or your designee will receive email notifications when these quarterly updates are due, and these notifications will continue until all actions have been implemented.

If you have any questions, please contact me at (858) 495-5661.

JUAN R. PEREZ  
Chief of Audits

AUD:PS:nb

Enclosure

c: Sarah Aghassi, Deputy Chief Administrative Officer, Land Use and Environment Group  
Tracy Drager, Auditor and Controller  
Jennifer Lawson, Chief Operations Officer, Land Use and Environment Group  
Aimee Leighton, Group Finance Director, Land Use and Environment Group

## About the Office of Audits & Advisory Services

The mission of the Auditor and Controller's Office of Audits & Advisory Services (OAAS) is to provide independent, objective assurance and consulting services designed to add value and improve the County of San Diego's operations. OAAS helps the County accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

### Audit Authority

OAAS derives its authority to conduct audits of County departments and programs primarily from the County Charter, County Administrative Code, Board of Supervisors Policy Manual, and California Government Code.

### Statement of Auditing Standards

This audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing prescribed by the Institute of Internal Auditors as required by California Government Code, Section 1236.



# AUDIT OBJECTIVE & SCOPE

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The Office of Audits & Advisory Services (OAAS) completed an audit of Third-Party Risks (Grants and Contract Management). The objective of the audit was to assess whether the internal controls over the Department of Public Works' (DPW) grant/contract management and monitoring practices are adequately designed, and operating effectively to mitigate risks, and ensure compliance with applicable laws and regulations.

The scope of the audit included a review of DPW's contract monitoring, contract invoice approval and payment processes, and COR designation, certification, and training requirements during FY 2020-21 and FY 2021-22.

## AUDIT RESULTS

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Within the scope of the audit, OAAS identified opportunities to improve DPW's contract monitoring and invoice review practices as outlined below.

### Section I:

#### Contract Monitoring Practices Need Improvement

Audit testing was designed to review the Quality Assurance Surveillance Plan (QASP), monitoring plan, and supportive documentation that DPW CORs use to determine whether contract monitoring activities are being performed. Out of 10 contracts sampled, 1 did not have a QASP, monitoring plan or checklist available:

- **Contract 565982 – Geosyntec Consultants for \$3,600,000:** Although OAAS found that DPW has procedures in place that include contract monitoring activities that must be performed, the COR for this contract did not document these activities to ensure proper contract monitoring was performed.

The DPC COR Training instructs CORs to develop a QASP or checklist to be used as a monitoring tool to ensure that systematic quality assurance methods are used. The DPC COR Training materials include a monitoring plan template to guide and schedule the development and completion of contract monitoring activities.

Lack of a documented contract monitoring plan or checklist increases the risk that adequate and timely contract monitoring activities are not being performed. Insufficient documentation of monitoring activities conducted can result in the inability to determine whether the contract activities were properly performed.

## RECOMMENDATION:

To ensure the proper ongoing administration and monitoring of contracts, DPW should:

1. Formalize a monitoring plan or checklist that outlines the areas to be evaluated and the surveillance methodology to be used for contract 565982 and other contracts in need of a plan. Ensure that all current monitoring plans or checklists are updated, as necessary.
2. Ensure that contract monitoring activities are formally documented and maintained in the contract file as evidence that periodic reviews are conducted as required by DPC.

## Section II

### Invoice Review Practices Need Improvement

OAAS review of DPW paid invoices for contracted goods and services identified the following issues:

1. **COR Invoice Approval:** OAAS identified invoice payments that were not approved by the respective COR, as required by DPC, in 29 out of 39 sampled invoices. These were due to established DPW project processes that did not require the COR to approve invoices before payment and allowed for an alternate approver. This deficiency raises the risk of unauthorized or improper expenditures, as invoices were processed and paid without the necessary review and authorization.
2. **Duplicate Payments:** Within the scoped period, OAAS identified a pair of paid duplicate invoices that had the same invoice number and amount as outlined below. In each set, a blank space was added to the invoice number during invoice processing which circumvented system controls that prevent duplicate invoices from being paid. Duplicate payments result in an overpayment by the County, leading to unnecessary expenditures.
  - a. Invoice 24693672-001 for \$1,044 paid on 6/22/22 and 6/7/22.
  - b. Invoice 189398788-017 for \$1,914 paid on 6/23/23 and 6/8/22.
3. **Contract Pricing Schedules:** Contract pricing schedules were not adhered to in 4 out of 39 sampled payments, as outlined below. Discrepancies like these increase the risk of inappropriate payment for goods or services received.
  - a. **Contract 556225 – Nextech Systems:** 3 invoice payments totaling \$264,452 were for services not outlined in the pricing schedule. The issue arose from the need for new software support for traffic signal operation. This requirement emerged after installation in the field and, due to potential public safety concerns, services not outlined in the contract were requested and paid by DPW.
  - b. **Contract 558390 – HERC Rentals:** An invoice payment had an incorrect line-item delivery/pick-up price (\$558 vs \$214) per the contract terms resulting in an overpayment even though the invoice was reviewed and approved by the COR.

## RECOMMENDATION:

To ensure the proper ongoing invoice review practices, DPW should:

1. Inform and emphasize to all DPW CORs the expectations that their role requires including, but not limited to:
  - a. Ensuring the dates on receipts and documentation match the invoiced period.
  - b. Ensuring invoices do not have clerical inaccuracies.
  - c. Approving invoices for payment by explicit signature only after ensuring invoiced line items comply with contract terms and performance has been verified.
2. Ensure the DPW finance team reviews invoices for COR approval before proceeding with invoice payment.
3. Regarding Finding II - Item 2, process the appropriate corrections from the vendors involved. Additionally, provide guidance to employees regarding the correct methods for payment processing to prevent duplicate payments from occurring.
4. Regarding Finding II:
  - a. **Item 3a:** Contact DPC to determine the best approach to address the issue identified with Nextech Systems. Additionally, to ensure the issue is not duplicated, consult with DPC on future exigent purchasing situations to ensure compliance with County purchasing policy.
  - b. **Item 3b:** Process a correction for the overpayment to HERC Rentals.

## BACKGROUND

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Contract administration involves the activities performed by County employees to determine how well the contractor met the requirements of the contract. Contract administration starts with developing a performance-based statement of work and preparing a contract monitoring plan that effectively measures the contractors' performance. Contract monitoring varies by contract and by department. It can range from the acceptance of goods or services to extensive involvement by County staff throughout the term of the contract.

Departments designate select employees with contract administration responsibilities as Contract Officer Representatives (COR) for one or more contracts. Designated CORs must obtain COR certification via training provided by the Department of Purchasing and Contracting (DPC). The certification ensures that a COR has the competencies that are essential to perform the COR role. It is the responsibility of each COR to know their training requirements and to monitor the progress of their COR certification.

# METHODOLOGY

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OAAS performed the audit using the following methods:

- Reviewed policies, procedures and other guidance related to procurement provided by DPW.
- Verified that staff assigned to manage DPW contracts were designated CORs and had met the required contract training hours.
- Judgmentally selected a sample of 10 DPW contracts to verify whether adequate monitoring tools were developed to ensure proper contract administration was performed by the assigned COR.
- Judgmentally selected a sample of paid invoices to ensure vendor payments had accurate supporting documentation and proper approvals, and to ensure that the invoices complied with the contract pricing schedules.
- Analyzed vendor payment data for duplicate contract payments.



**DEPARTMENT'S RESPONSE**  
(DEPARTMENT OF PUBLIC WORKS)

**PUBLIC WORKS****DEREK R. GADE, P.E.**  
DIRECTOR5510 OVERLAND AVENUE, SUITE 410, SAN DIEGO, CALIFORNIA 92123-1237  
(858) 694-2212**WILLIAM P. MORGAN, P.E.**  
ASSISTANT DIRECTOR

November 17, 2023

TO: Juan R. Perez, Chief of Audits  
Office of Audits and Advisory ServicesFROM: Derek R. Gade, Director  
Department of Public Works**DEPARTMENT RESPONSE TO AUDIT RECOMMENDATIONS: THIRD-PARTY RISKS  
(GRANTS AND CONTRACT MANAGEMENT AUDIT)**

The Department of Public Works (DPW) has reviewed the final draft report and proposes the below action plan to address the Office of Audits and Advisory (OAAS) recommendations.

**Finding I: Contract Monitoring Practices Need Improvement**

**OAAS Recommendation:** To ensure the proper ongoing administration and monitoring of contracts, DPW should:

1. Formalize a monitoring plan or checklist that outlines the areas to be evaluated and the surveillance methodology to be used for contract 565982 and other contracts in need of a plan. Ensure that all current monitoring plans or checklists are updated, as necessary.
2. Ensure that contract monitoring activities are formally documented and maintained in the contract file as evidence that periodic reviews are conducted as required by DPW.

**Action Plan:** The Department of Public Works (DPW) has reviewed the findings and recommendations of the audit report and agree to the recommendations above. In response to these recommendations, DPW will update DPW's Contracting Officer's Representative (COR) Handbook to include the importance of having a contract monitoring plan and provide DPW CORs a contract monitoring plan templates and/or checklists with instructions to have for each contract. DPW will initiate an automated workflow that will ensure periodic review and reminders for contract monitoring activities. DPW will explore additional tools available that will aid in contracting monitoring processes. In addition, a central repository will be established for collecting contract monitoring documentation.

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November 17, 2023  
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**Planned Completion Date:** June 30, 2024

**Contact Information for Implementation:** Theresa Vargas, Chief

**Finding II:** Invoice Review Practices Need Improvement

**OAAS Recommendation:** To ensure the proper ongoing invoice review practices, DPW should:

1. Inform and emphasize to all DPW CORs the expectations that their role requires including, but not limited to:
  - a. Ensuring the dates on receipts and documentation match the invoiced period.
  - b. Ensuring invoices do not have clerical inaccuracies.
  - c. Approving invoices for payment by explicit signature only after ensuring invoiced line items comply with contract terms and performance has been verified.
2. Ensure the DPW Finance Team reviews invoices for COR approval before proceeding with invoice payment.
3. Regarding Finding II – Item 2, process the appropriate corrections from the vendors involved. Additionally, provide guidance to employees regarding the correct methods for payment processing to prevent duplicate payments from occurring.
4. Regarding Finding II:
  - a. Item 3a: Contact DPC to determine the best approach to address the issue identified with Nextech Systems. Additionally, to ensure the issue is not duplicated, consult with DPC on future exigent purchasing situations to ensure compliance with County purchasing policy.
  - b. Item 3b: Process a correction for the overpayment to HERC Rentals.

**Action Plan:** DPW has reviewed the findings and recommendations and agree with the above. In response to these recommendations, DPW will update the DPW COR Handbook provided to all DPW CORs to emphasize the COR Roles & Responsibilities, including thorough review of invoices before payment processing. This will be used as a supplement to the DPC provided annual COR training. In September 2023, DPW Finance conducted a Purchasing 101 training provided to all DPW CORs that included COR responsibilities regarding invoice processing. To ensure DPW CORs are approving invoice payments, DPW will utilize a central repository to keep track of all active DPW CORs and periodically confirm the COR approval before processing invoice payments.

Regarding duplicate payments (Finding Item #2) and overpayment (Finding Item 3b), DPW has contacted the vendors and are working with them on submitting a refund. As of the date of this letter, DPW has received refund from one of the three vendors.

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November 17, 2023  
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DPW will utilize a central repository to keep track of all active DPW CORs and periodically check to ensure the COR approval is accurate before processing invoice payment.

Regarding Finding Item #3a, DPW will work with DPC on the best approach to address the issue identified. In addition, DPW will update the DPW COR Handbook to include emergency procurement process to ensure compliance with County purchasing policy.

**Planned Completion Date:** June 30, 2024

**Contact Information for Implementation:** Theresa Vargas, Chief

Please let me know if you have any questions for concerns with our responses.