

**COUNTY OF SAN LUIS OBISPO BOARD OF SUPERVISORS
AGENDA ITEM TRANSMITTAL**

(1) DEPARTMENT Auditor - Controller - Treasurer - Tax Collector	(2) MEETING DATE 1/10/2017	(3) CONTACT/PHONE Kerry Bailey 788-2979 Suzanne De Witt 781-4846	
(4) SUBJECT Submittal of the Maintenance and Software Contracts Performance and Internal Controls Audit of the Probation and Information Technology Departments, the Offices of the Clerk-Recorder and Sheriff-Coroner, and the Health Agency for FY 2014-15. All Districts.			
(5) RECOMMENDED ACTION It is recommended that the Board receive, review, and file the Maintenance and Software Contracts Performance and Internal Controls Audit of the Probation and Information Technology Departments, the Offices of the Clerk-Recorder and Sheriff-Coroner, and the Health Agency.			
(6) FUNDING SOURCE(S) N/A	(7) CURRENT YEAR FINANCIAL IMPACT \$0.00	(8) ANNUAL FINANCIAL IMPACT \$0.00	(9) BUDGETED? Yes
(10) AGENDA PLACEMENT <input checked="" type="checkbox"/> Consent <input type="checkbox"/> Presentation <input type="checkbox"/> Hearing (Time Est. ___) <input type="checkbox"/> Board Business (Time Est. ___)			
(11) EXECUTED DOCUMENTS <input type="checkbox"/> Resolutions <input type="checkbox"/> Contracts <input type="checkbox"/> Ordinances <input checked="" type="checkbox"/> N/A			
(12) OUTLINE AGREEMENT REQUISITION NUMBER (OAR) N/A		(13) BUDGET ADJUSTMENT REQUIRED? BAR ID Number: <input type="checkbox"/> 4/5 Vote Required <input checked="" type="checkbox"/> N/A	
(14) LOCATION MAP N/A	(15) BUSINESS IMPACT STATEMENT? No	(16) AGENDA ITEM HISTORY <input checked="" type="checkbox"/> N/A Date: _____	
(17) ADMINISTRATIVE OFFICE REVIEW <i>Nikki J. Schmidt</i>			
(18) SUPERVISOR DISTRICT(S) All Districts			

County of San Luis Obispo



TO: Board of Supervisors

FROM: James P. Erb, CPA, Auditor - Controller - Treasurer - Tax Collector

DATE: 1/10/2017

SUBJECT: Submittal of the Maintenance and Software Contracts Performance and Internal Controls Audit of the Probation and Information Technology Departments, the Offices of the Clerk-Recorder and Sheriff-Coroner, and the Health Agency for FY 2014-15. All Districts.

RECOMMENDATION

It is recommended that the Board receive, review, and file the Maintenance and Software Contracts Performance and Internal Controls Audit of the Probation and Information Technology Departments, the Offices of the Clerk-Recorder and Sheriff-Coroner, and the Health Agency.

DISCUSSION

The purpose of our audit was to determine if the contracted services for maintenance and software were needed, appropriate, and adequately reviewed; and to assess the internal controls around the contracting process. The scope of our audit was all County maintenance and software contracts for FY 2014-15. Our sample included 23 contracts from five departments.

OTHER AGENCY INVOLVEMENT/IMPACT

Clerk-Recorder, Health Agency, Information Technology, Probation, and Sheriff-Coroner.

FINANCIAL CONSIDERATIONS

Maintenance and computer software contracts totaled \$5.6 million of the County's FY 2014-2015 budget.

RESULTS

In all general respects, the departments are contracting for appropriate and needed services. However, we found two areas where internal controls over contracts could be strengthened. Our detailed suggestions are included in the attached report.

ATTACHMENTS

1. Maintenance & Software Contracts Performance & Internal Controls Audit



COUNTY OF SAN LUIS OBISPO

AUDITOR • CONTROLLER • TREASURER • TAX COLLECTOR

Maintenance & Software Contracts Performance & Internal Controls Audit of the Probation and Information Technology Departments, the Offices of the Clerk- Recorder and Sheriff-Coroner, and the Health Agency

December 2016

**JAMES P. ERB, CPA
Auditor-Controller
Treasurer-Tax Collector-Public Administrator**



COUNTY OF SAN LUIS OBISPO
AUDITOR • CONTROLLER • TREASURER • TAX COLLECTOR
 1055 MONTEREY ST. RM. D290
 SAN LUIS OBISPO, CA 93408
 (805) 781-5831 • FAX (805) 781-5362
<http://sloacttc.com>

JAMES P. ERB, CPA
 Auditor-Controller
 Treasurer-Tax Collector
 James W. Hamilton, CPA
 Assistant

TO: TOMMY GONG, CLERK – RECORDER
 JEFF HAMM, HEALTH AGENCY DIRECTOR
 DANIEL MILEI, INFORMATION TECHNOLOGY DIRECTOR
 JAMES SALIO, CHIEF PROBATION OFFICER
 IAN PARKINSON, SHERIFF – CORONER

FROM: JAMES P. ERB, CPA, AUDITOR-CONTROLLER-TREASURER-TAX COLLECTOR

DATE: DECEMBER 2, 2016

SUBJECT: PERFORMANCE & INTERNAL CONTROLS AUDIT OF FY 2014-15 MAINTENANCE & SOFTWARE CONTRACTS

Our office has completed an audit of selected maintenance and software contracts in five county departments for the fiscal year 2014-2015. We determined the contracts were appropriate and needed to support each departments' mission. However, we found issues with contract monitoring and authorization of invoices.

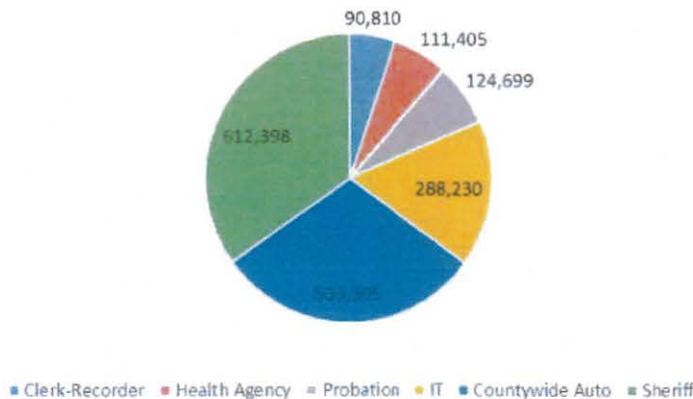
Purpose

The objective of our audit was to determine if the contracted services were needed, appropriate, and adequately reviewed; and to assess the internal controls around the contracting process.

Scope

We selected a sample from all county maintenance and software contracts for FY 2014-2015. Our sample included 23 contracts from five departments, totaling \$4,351,847.

Contracted Amounts Per Department



Methodology

We conducted our audit in conformance with the *International Standards for the Professional Practice of Internal Auditing*. The *International Standards for the Professional Practice of Internal Auditing* require that the internal audit activity be independent and internal auditors be objective in performing their work. The *Standards* also require that internal auditors perform their engagements with proficiency and due professional care; that the internal audit function be subject to a program of quality assurance; and that the results of engagements are communicated.

In all general respects, the departments are contracting for appropriate and needed services. However, we found several areas where internal controls over contracts could be strengthened.

Suggested Improvements

1. Periodically Review Contracts for Need, Appropriateness, and Effectiveness

Each department is routinely reviewing the cost of contracted maintenance and software during the budget preparation process; however, we found three out of five departments did not more frequently review their contracts to determine if the services were still needed, effective, and appropriate to fulfilling the department's mission. Best business practices include periodically reviewing contracts to determine if the services being provided are contributing to the achievement of the department's goals in an economical and efficient manner. Fiscal and operations staff should routinely collaborate to review both the financial and performance aspects of the contracts. When contracts are not comprehensively reviewed, or monitored routinely by the department, the risk of procuring inappropriate or inadequate goods or services increases.

2. Conduct Operational and Fiscal Reviews of Invoices before Payment

Three out of five departments reviewed did not have operational department staff review and authorize invoices before payment. Staff assumed that once a contract was in place, the expenditures were authorized; however, strong internal controls require people knowledgeable about the services being provided, review and approve invoices prior to payment by fiscal personnel. When operational staff do not review, and approve invoices it increases the possibility the department will pay for goods or services that are not in compliance with the contract agreement or are not contributing to the achievement of the department's goals.

We appreciate the courteous attitude of your staff and the cooperation we received during the course of our review.