

County of Santa Clara

Finance Agency
Controller-Treasurer

County Government Center
70 West Hedding Street, East Wing 2nd floor
San Jose, California 95110-1705
(408) 299-5206 FAX 287-7629



July 2, 2015

Assignment 10307

To: Alan Minato, Controller-Treasurer
Emily Harrison, Finance Agency Director

From: Rebecca Haggerty, Internal Audit Manager *RH*

Subject: Internal Audit Report: *A Follow-up Audit to the Internal Audit Report Audit of Object 2 (Non-personnel Services and Supplies) Expenditures of District 2 for the period of January 2009 through September 2012*

The Internal Audit Division (IAD) has completed a follow-up audit to the *Internal Audit Report Audit of Object 2 (Non-Personnel Services and Supplies) Expenditures of District 2 for the period of January 2009 through September 2012*.

During a follow-up audit IAD evaluates the progress made on recommendations. The IAD does not change the initial findings, recommendations, or priority levels assigned. Attached is the follow up report, management's response to the follow up report and, for convenience, the original report.

Of the seven recommendations, four were implemented and three are no longer applicable. On April 24, 2015, the Office of the County Counsel filed a lawsuit to collect the remaining \$1,750 debt owed to the County on recommendation 1B. Since the Office of the County Counsel will be following up, no additional follow up by IAD is necessary.

The IAD conducted the audit from December 2014 through April 2015. It is anticipated that this report will be submitted to the Board of Supervisor's Finance and Government Operations Committee during the summer of 2015.

Since the original Supervisor is no longer in office, we conducted this follow-up audit in cooperation with staff from many departments. We appreciate the cooperation and assistance extended by the staff from Controller-Treasurer's Claims Unit, the Office of the County Counsel, the County Executive's Office, the Department of Revenue, the Procurement Department and the Office of the Sheriff during this audit. Their assistance contributed significantly to the successful completion of this audit.

Attachments:

Follow up Report: A Follow-up Audit to the Internal Audit Report Audit of Object 2 (Non-Personnel Services and Supplies) Expenditures of District 2 for the period of January 2009 through September 2012

Management's response to the Follow up report

Original Audit: Internal Audit Report Audit of Object 2 (Non-Personnel Services and Supplies) Expenditures of District 2 for the period of January 2009 through September 2012

Board of Supervisors: Mike Wasserman, Cindy Chavez, Dave Cortese, Ken Yeager, S. Joseph Simitian
County Executive: Jeffrey V. Smith

Attachment: Internal Audit Report - Follow Up to Audit of Non-personnel Services and Supplies Expenditures of District 2 (77503) : Internal

COUNTY OF SANTA CLARA

CONTROLLER-TREASURER DEPARTMENT – INTERNAL AUDIT DIVISION

INTERNAL AUDIT REPORT

*A Follow-up Audit to the Internal Report
Audit of Object 2 (Non-personnel Services
and Supplies) Expenditures of District 2 for
the period of January 2009 through
September 2012 issued Dec 11, 2012*



Assignment 10307
July 2, 2015

EXECUTIVE SUMMARY

Conclusion Appendix A is a summary of the seven audit recommendations' implementation status. Four of the recommendations are implemented and three of these recommendations are no longer applicable.

Implemented	No longer applicable	Total
4	3	7

Objective The objective was to determine the implementation status of the seven recommendations made in the *Internal Audit Report Audit of Object 2 (Non-Personnel Services and Supplies) Expenditures of District 2 for the period of January 2009 through September 2012 issued December 11, 2012.*

Scope The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing.*

The scope was to examine the status of the seven recommendations made in the *Internal Audit Report Audit of Object 2 (Non-Personnel Services and Supplies) Expenditures of District 2 for the period of January 2009 through September 2012 issued December 11, 2012.*

It included identifying whether the implementation is properly substantiated. The audit was conducted from December 2014 through April 2015.

A draft copy of this report was discussed with the Controller-Treasurer Department prior to issuance of the final report. Management's response is attached.

Background The Institute of Internal Auditors' (IIA) Professional standards and the Internal Audit Division's procedures, as approved by the Board of Supervisors, require follow-up on recommendations. As such, followup audits were included in the FY15 work plan. This audit was performed to meet these requirements.

Signature on file

Rebecca Haggerty *RH*
Internal Audit Manager
July 2, 2015

Attachment: Appendix A, STATUS OF AUDIT RECOMMENDATIONS

Attachment: Internal Audit Report - Follow Up to Audit of Non-personnel Services and Supplies Expenditures of District 2 (77503 : Internal

APPENDIX A STATUS OF AUDIT RECOMMENDATIONS

This report summarizes the status of audit recommendations as implemented, partially implemented, not implemented, or no longer applicable.

Finding / Recommendation Number	Finding/Recommendation	Implementation Status	Comments
1	P-card Transactions		
1A	District 2 should reimburse \$403 from finding (c) to the County within 30 days.	Implemented	Amount was fully recovered.
1B	The County should be immediately reimbursed for prohibited donations made through the P-Card. Alternatively, since these donations (of \$1,750) were made to organizations serving the community, District 2 could seek the Board's approval of all P-Card donations to community organizations that were identified in this and in our earlier report.	No longer applicable	Uncollected prohibited donations of \$1,750 are included in the amount filed in a lawsuit by the Office of the County Counsel to pursue collections. Since the Office of the County Counsel will be following up, no additional follow-up by IAD is necessary.
1C	As noted in Recommendations 5B and 5C of the December 3, 2012 report, the County has expanded the oversight of the P-Card activities in District 2 and will provide refresher training to the P-Card holders and program administrators.	No longer applicable	No longer applicable as the P-Card holders are no longer employed by the County.

Finding / Recommendation Number	Finding/Recommendation	Implementation Status	Comments
2	Non P-card Payments		
2A	The Board should direct the County Administration and County Counsel to provide policy recommendations for donations as well as sponsorship of community events with County funds. The Direct Pay Ordinance should also be reviewed to remove ambiguity and provide clarity.	Implemented	<ol style="list-style-type: none"> 1. County adopted a resolution on January 15, 2013 prohibiting the use of County funds for donations without specific Board approval. 2. County Policy 3.49 adopted on 1/12/2010 states that County Supervisors who make financial contributions to a County-presented event will not be listed as sponsors of such event. 3. Direct Pay codes ordinance NS300.859 was reviewed and adopted on 5/14/13.
2B	Approved Trip Expense Vouchers should be filed with the Controller-Treasurer Department within 30 days for the two trips noted on finding (b) above. Otherwise, reimbursement should be made immediately.	Implemented	Trip Expense Vouchers for the two trips, totaling \$3,281, were filed.
2C	The Controller-Treasurer Department should follow-up with the District 2 staff, Office of the Sheriff, and/or the vendor regarding the refund credit upon the return of the two electric bicycles noted from finding (d).	No longer applicable	A refund credit cannot be obtained as the vendor is no longer in business.
2D	The County should be immediately reimbursed \$57 from finding (c) within 30 days.	Implemented	Amount was fully recovered.

County of Santa Clara

Finance Agency
Controller-Treasurer

County Government Center
70 West Hedding Street, East Wing 2nd floor
San Jose, California 95110-1705
(408) 299-5206 FAX 287-7629



DATE: July 2, 2015

TO: Rebecca Haggerty, Internal Audit Manager

FROM: Alan Minato,  Controller-Treasurer

SUBJECT: Response to the Internal Audit Report: *A Follow-up Audit to the Internal Audit Report Audit of Object 2 (Non-personnel Services and Supplies) Expenditures of District 2 for the period of January 2009 through September 2012*

Thank you for the opportunity to respond to the Internal Audit Report: *A Follow-up Audit to the Internal Audit Report Audit of Object 2 (Non-personnel Services and Supplies) Expenditures of District 2 for the period of January 2009 through September 2012*

I have reviewed the report and agree with the status of audit recommendations. Specifically, of the seven recommendations, four are implemented and three are no longer applicable.

I appreciate the work of the Internal Audit Division on this project.

Board of Supervisors: Mike Wasserman, Cindy Chavez, Dave Cortese, Ken Yeager, S. Joseph Simitian
County Executive: Jeffrey V. Smith

Attachment: Internal Audit Report - Follow Up to Audit of Non-personnel Services and Supplies Expenditures of District 2 (77503) : Internal

County of Santa Clara
 Finance Agency
 Controller-Treasurer Department



County Government Center
 70 W. Hedding Street, East Wing, 2nd Floor
 San Jose, California 95110-1705
 (408) 299-5200 FAX (408) 289-8629

December 11, 2012

To: Board of Supervisors
 Jeffrey V. Smith, County Executive
 Gary Graves, Chief Operating Officer
 Lori E. Pegg, Acting County Counsel
 Vinod Sharma, Director, Finance Agency
 Jenti Vandertuig, Director of Procurement

Subject: Audit of Object 2 (Non-personnel Services and Supplies) Expenditures of District 2 for the period of January 2009 through September 2012.

We have completed the audit of Object 2 (non-personnel services and supplies) expenditures of District 2 for the 45-month period of January 2009 through September 2012. This report includes review of Object 2 expenditures including the P-Card transactions of the District staff. The first P-Card account for District 2 was separately reviewed in our audit report of December 3, 2012. We thank the staff of the Board of Supervisors' District 2 Office, the Procurement Department, and the County Counsel for their cooperation.

Respectfully submitted,

Irene Lui, C.P.A.
 Controller-Treasurer

COUNTY OF SANTA CLARA

CONTROLLER-TREASURER DEPARTMENT

INTERNAL AUDIT REPORT

**Audit of Object 2 (Non-personnel Services and Supplies)
Expenditures of District 2 for the period
January 2009 through September 2012**



December 11, 2012

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Attachment: Internal Audit Report - Follow Up to Audit of Non-personnel Services and Supplies Expenditures of District 2 (77503 : Internal

Executive Summary

On December 3, 2012, Internal Audit issued a report on the procurement card (P-Card) transactions of Supervisor George Shirakawa for the period, January 2009 through September 2012. This report covers Internal Audit's review of Object 2 (non-personnel-services and supplies) expenditures for the Board of Supervisors' District Office 2 (District 2), including transactions charged to the P-Card issued to District 2 staff for the same period.

During the period covered by this audit, District 2 spent \$209,661 on various Object 2 expenditures, including \$48,040 charged to the P-Card issued to the District's staff. The breakdown of expenditures is as follows:

No.	Transaction Type	Staff P-Card Transactions*		Non P-Card Transactions		Grand Total	
		No.#	Amount	No.#	Amount	No.#	Amount
1	Travel Expenses	3	\$ 493	17	\$ 4,341	20	\$ 4,834
2	Non Travel (Local Meals)	7	1,188	11	1,654	18	2,842
3	Donations and Sponsorships	9	8,790	13	21,250	22	30,040
4	Office Expenses	87	36,351	298	16,968	385	53,319
5	Professional and Other Services	2	1,218	95	117,408	97	118,626
Total		108	\$48,040	434	\$161,621	542	\$209,661

* The above list does not include P-Card transactions of Supervisor George Shirakawa (240 transactions for \$36,837) as they were separately covered in the Internal Audit report of December 3, 2012.

The issues identified in this audit include donations to nonprofit or governmental entities, or funds spent for sponsorship of community events, including purchases of goods or services for such events, transfer of assets via donation to another County department, and payments for staff meals.

In addition to those identified in our December 3, 2012 report, the District incurred another \$30,040 in donations to nonprofits or governmental agencies, or for sponsorship of community events that were either charged to a P-Card or paid via other processes, such as direct pay or a service agreement. We were unable to identify a specific County policy that explicitly prohibits donations without Board approval. While the P-Card policy strictly prohibits use of P-Cards for donations, the 2005 Direct Pay (DP) Ordinance sections H2A, H2B, or H-15 could be interpreted to allow such donations or contributions if they served the County community. For example, a \$1,000 contribution to the "Independence 76th Cavalry Band" to send a 10-member band team to London, or a \$2,500 donation to "Safe from the Start" for "Glow in the Dark" necklaces for a Halloween event in the community, were paid by the District under DP Code H2B.

We believe the primary purpose of these two codes (H2A and H2B) was for the procurement of goods and services for the County, and these codes should not have been used for making donations or contributions to other entities. As a result of our Direct Pay audit report issued in October 2009, codes H2A and H2B were eliminated effective July 1, 2011 and code H15 was revised with a reduced limit of \$2,500 per occurrence. The Administration and County Counsel should provide policy recommendations to the Board for donations as well as sponsorship of community events with County funds. The remaining DP codes should also be reviewed to remove any ambiguity and provide clarity.

The District staff P-Card account incurred \$8,790 in nine donations. Seven out of the nine transactions (totaling \$6,250) were clearly in violation of the County's P-Card Policy. This includes \$4,500 already identified and reported in our earlier report. The County should be immediately reimbursed for these expenditures. Alternatively, since these donations were made to organizations serving the community, the District could seek the Board's approval of all P-Card donations to community organizations that were identified in this and in our earlier report.

In addition, four instances were noted where the P-Card was charged for staff meals at restaurants for \$459, and the District has agreed to reimburse the County for these costs. Other issues noted were not significant and are reported in the findings and recommendations section of this report.

Project Objective, Scope and Methodology

The objective of this audit is to review the appropriateness of Object 2 expenditures incurred by District 2, including expenses charged to the P-Card and a review of their compliance with the County's applicable policies and regulations. We also reviewed the current policies governing transactions for elected officials and Board appointees and identified best practices and/or policy changes to avoid conflicting or confusing regulations.

The scope of our work includes (a) review of pertinent laws, policies and procedures, regulations, and ordinances related to acquisition of goods or services including the P-Card program, (b) examination of P-Card transaction logs, supporting documents (receipts, memos, agendas, travel authorizations, and travel expense vouchers, etc.) and credit card statements, (c) analysis of P-Card data for the period and review of additional documentation as needed, and (d) review of other Object 2 expenditures for the same period.

Due to the limited scope and timeframe to complete the audit, we did not review or analyze several related areas, including but not limited to the contract/service agreement execution process and its compliance with the contracting policy.

The following County policies and ordinance were used as references for our analysis:

- P-Card Policy (Rev. July 1, 2011)
- P-Card Policy (Feb 15, 2008 Edition)
- Business Meal Policy (Non-Travel) (Effective Date Dec. 5, 2007)
- Travel Policy (Rev. June 8, 2010)
- Travel Policy (January 2006)
- Charter Section 710
- Claims Training Manual (2004)
- Direct Payment Ordinance NS.3-44 (December 2005)
- Direct Payment List (September 19, 2011)

Background

On October 30, 2012, the Controller-Treasurer's Office was asked by the Board of Supervisors to conduct an audit of the P-Card transactions for all elected officials and executive managers directly appointed by the Board. The County has established P-Card policies and guidelines, but the oversight of the program has been decentralized with a limited post-audit function in place. The Board request for an audit is the result of recent newspaper reports that P-Card usage by District 2 was inconsistent with existing policies and procedures.

On December 3, 2012, Internal Audit issued its report of P-Card transactions of Supervisor George Shirakawa for a 45 month period, January 2009 through September 2012. The Board then directed Internal Audit to review the District's Object 2 expenditures for the same period.

Findings and Recommendations

Our findings from the review of Object 2 expenditures of District 2 for the period of January 2009 through September 2012 are grouped as findings from (1) P-Card transactions and (2) non P-Card payments, such as ACH or warrant payments.

1. P-Card transactions

The District spent \$48,040 on 108 transactions charged to the P-Card issued to the District staff. This does not include \$36,837 in credit card charges incurred by Supervisor Shirakawa that were separately reported in our report issued on December 3, 2012. The card was primarily used for office expenses and donations for community events. The following exceptions were noted.

a) Excluded purchases

Nine payments totaling \$8,790 (Exhibit 1) were made for donations with the staff's P-Card. Other than the first two (amounting to \$2,540), the remaining seven transactions totaling \$6,250 were made after the 2011 revised P-Card Policy that explicitly prohibits charitable donations. Of these, four donations amounting to \$4,500 were identified and reported in Finding 1 of our December 3, 2012 report. These donations may serve a public purpose, but the transactions need the Board's approval, as only the Board can make donations or authorize grants to other organizations. With one exception (item 8, Exhibit1), the donations are supported by appropriate documentation. Net of the \$4,500 that was accounted for in our December 3, 2012 report, the remaining \$1,750 should be reimbursed to the County.

b) Travel expenses

Two airline tickets totaling \$493 were purchased using the P-Card. County policy requires airline tickets be purchased through the County's travel agency. One of these two transactions, an airline ticket of \$353 was not supported by a travel authorization or trip expense voucher.

c) Local meals

The Business Meals Policy provides reimbursement for non-travel business meals that are incurred for bona fide business purposes only. It states that no meal reimbursements are allowed for social functions or regularly scheduled staff meetings during normal working hours other than light refreshments. However, three staff meals at restaurants totaling \$459 were not allowable P-Card purchases. The District staff reimbursed \$56 on December 10, 2012 for one of the three meals and have agreed to reimburse the remaining amount of \$403.

Recommendation 1A: District 2 should reimburse \$403 from finding (c) to the County within 30 days.

Recommendation 1B: The County should be immediately reimbursed for prohibited donations made through the P-Card. Alternatively, since these donations were made to organizations serving the community, District 2 could seek the Board's approval of all P-Card donations to community organizations that were identified in this and in our earlier report.

Recommendation 1C: As noted in Recommendations 5B and 5C of the December 3, 2012 report, the County has expanded the oversight of the P-Card activities in District 2 and will provide refresher training to the P-Card holders and program administrators.

2. Non P-Card Payments

The District incurred \$161,621 in Object 2 expenditures during the period. Most of these expenditures were for professional and other services, office expenses and donations and sponsorships.

Object 2 expenditures are incurred through one or more of the three types of procurement strategies: three-way match (including Master Contract Release, Requisition for Goods or Services and Priority Purchase), two-way match (including Service Agreements and Board Contracts) and non-match (including Direct Pay and Procurement Card). The first two categories normally need involvement from other parties – Procurement, Office of Budget and Analysis, County Counsel, and/or the Board. The non-match payments (Direct Pay and Procurement Card), however, are the payments made directly by departments without third parties' prior review or approval. These non-match items pose the highest risk.

Below are the findings and observations noted from the non-P-Card transactions of District 2 Object 2 expenditures for the period.

a) Sponsorship or donation payments paid via direct pay (DP) codes H2B and H15

During the audit period, 10 sponsorship or donation payments amounting to \$17,250 were made via direct pay, using either code H2B for "*non-recurring services that are not covered*

by a contract” or code H15 for “non-mandatory payments to other governmental agencies, including purchases of goods or services that do not exceed \$5,000 per occurrence,” as listed on Exhibit 2. In addition, one sponsorship payment of \$3,000 was made through a service agreement. Instead of going through the official procurement process, departments are allowed to make direct vendor payments for items listed in the DP Ordinance.

The DP Ordinance authorizes payment for transactions that are not on purchase orders. As noted from the Internal Audit Report on the Direct Pay Code Process dated October 9, 2009, there were ambiguous codes that might constitute improper use of this payment method. In response to the findings and recommendations of that audit, Procurement and Finance collaborately reviewed the direct pay codes that had been broadly used by departments with least consistency or control. With the implementation of the Small Dollar Purchase Policy Using Field Purchase Orders and the revised P-Card Policy effective July 1, 2011, many direct pay codes have been eliminated, refined and/or revised. With the approval of the Finance and Government Operations Committee (FGOC), Code H2B was discontinued effective July 1, 2011 and Code H15’s maximum purchase limit was reduced to \$2,500 effective September 19, 2011.

These donation or sponsorship payments made before July 1, 2011 reflected the same concerns. District 2 made these payments based on its plain language reading of H2A and H2B. Sponsorships, if they truly represent services the payees perform for the County, might meet the criteria of H2B. A summary of these payments is provided in Exhibit 2. As noted, most of the payments represented services provided to the community, but not necessarily the services for regular County operations. Although it appears that these payments could be made with a bona fide belief that they were authorized payments from the Board through the DP Ordinance, we believe a clear policy dealing with donations or contributions should be established by the Board.

b) Travel paid via DP code F1

Two trips totaling \$3,281 were made by District 2 using DP code F1 without filing the travel authorization (TA) or trip expense voucher (TEV). The travel claims process is centralized in the Controller’s Office. All travel should be submitted to and reviewed by the Controller’s staff. Instead of properly submitting the TA and TEV, District 2 made these two payments via DP without filing the required authorization form or accounting report.

c) Staff meal paid via DP Code H2A

Similar to Finding 1 (c) above, we found a non P-Card payment of \$57 was made for a staff meal – not light refreshments – that was prohibited under the Business Meals Policy.

d) Two electric bicycles purchased and donated to the Sheriff’s Office

In June, 2009, the District donated two electric bicycles, at purchase price of \$4,000 after credit, for a pilot program in conjunction with the Sheriff’s Office as part of the County’s ongoing efforts to identify alternative energy opportunities. The Sheriff’s Office took possession of these bicycles but returned them to the vendor approximately a month later.

Neither the District nor the Sheriff's Office has any record of receiving a refund or credit from the vendor.

Transfer of funds or donation of assets between departments constitutes a budget adjustment or reappropriation which requires the Board's approval.

- Recommendation 2A:** The Board should direct the County Administration and County Counsel to provide policy recommendations for donations as well as sponsorship of community events with County funds. The Direct Pay Ordinance should also be reviewed to remove ambiguity and provide clarity.
- Recommendation 2B:** Approved TEVs should be filed with the Controller's Office within 30 days for the two trips noted on finding (b) above. Otherwise, reimbursement should be made immediately.
- Recommendation 2C:** The Controller's Office should follow-up with the District, Sheriff's Office, and/or the vendor regarding the refund credit upon the return of the two electric bicycles noted from finding (d).
- Recommendation 2D:** The County should be immediately reimbursed \$57 from finding (c) within 30 days.

EXHIBIT- 1

P-Card Donation or Sponsorship Payments						
	Vendor	Transaction Date	Amount	Description	Pay Code	Reported Public Purpose
1	Alum Rock Village Business Association	08/10/2009	\$ 1,500	Donation to sponsor a community event - the 2nd annual San Jose Salsa Festival - which is tax deductible.	P-card	Promotion of local business
2	Save Our Sports 5k Run/Walk	04/30/2011	1,040	Bronze level sponsorship/donation for a 5k run/walk event at Mt. Pleasant High School.	P-card	Youth
3	Alum Rock Village Business Association	08/11/2011	2,500	Donation to sponsor a community event - the 4th annual San Jose Salsa Festival.	P-card	Promotion of local business
4	Somos Mayfair	08/23/2011	500	Tax-deductible contribution made to Network for Good as donation on behalf of Somos Mayfair.	P-card	Children and Family
5	Asian Americas for Community Involvement	06/04/2012	500	Donation to support their mission to improve health, mental health and well being of individuals, families and the Asian community	P-card	SSA/Children and Family
6	School of Arts & Culture MHP	06/05/2012	500	Virginia Street Bridge Mural Project sponsorship of artist fee, supplies, and opening reception refreshments.	P-card	Youth
7	Third Street Community Center	06/07/2012	1,000	Donation to Third Street Community Center	P-card	Children and Family
8	Sparkle Swim School	06/19/2012	750	Missing Receipt - Based on Transaction log description it states that this is a sponsorship for swim lessons	P-card	Youth
9	Somos Mayfair (Tax ID 77-0499813)	09/12/2012	500	Bronze sponsorship for 2012 Annual Gracias A La Vida Luncheon. The contribution towards "network for good" a non profit, donor advised fund (tax ID 68-0480736)	P-card	Children and Family
Sub-Total			\$ 8,790			

Other (Non P-Card) Donation or Sponsorship Payments						
	Vendor	Transaction Date	Amount	Description	Pay Code	Reported Public Purpose
1	East Valley Softball League	3/8/10	\$ 1,000	Donating \$1,000 to go toward a Golf Cart for the snack shack.	H2A	Youth
2	The Independence High School 76th Cavalry Band Booters Club, Inc.	10/22/09	1,000	Financial sponsorship goes directly to the students/families to assist them with travel fees to London.	H2B	Children and Youth
3	The National Hispanic University	3/16/10	250	Support pledge for the 2010 National Hispanic University Distinguished Speaker Series.	H2B	Adults/Education/College
4	Chavez Family Vision Inc.	4/6/11	2,500	For Education Program serving the disadvantaged youth from San Jose including (1) Tutorial/Mentoring program and (2) Sponsorship program assisting college bound students.	H2B	Youth
5	The National Hispanic University	3/12/09	1,000	Support of National Hispanic University Distinguished Speaker Series 2009 Programs.	H2B	Adults/Education/College
6	Asian American Recovery Services	6/9/09	500	Sister-to-Sister Leadership Conference: Ten girls' registration sponsorship	H2B	Youth
7	Cross Cultural Community Services	5/3/10	1,000	Donation in support of after school and truancy program located at the most vulnerable schools in the east side.	H2B	Youth
8	Somos Mayfair INC	9/27/10	500	Sponsorship of annual Gracias a La Vida Celebration	H2B	Children and Family
9	Safe From the Start	10/19/09	2,500	Contribution for Halloween 2009 for distributing 30,000 glow necklaces to over 250 households in Santa Clara County in order to provide for children to participate activities by allowing for safe crossing of city streets.	H2B	Public Safety/Youth
H2- Total			\$ 10,250			
10	City of San Jose	3/12/09	5,000	Scholarships (off the cost of swim lessons) at Fair, Biebrach and Mayfair aquatics	H15	Children and Youth
11	City of San Jose	6/13/11	3,000	To support the purchase of magnets for SJPD crime prevention promotion - marketing efforts for the residents of Foothill area	H15	Public Safety
H15- Total			8,000			
12	Alum Rock Village Business Association	8/24/10	3,000	Sponsorship of community event (San Jose Salsa Festival) - covering expenses of the street fair such as renting tents and canopies, hiring security, and providing a Kid Zone.	SA 4400004952	Promotion of local business
SA- Total			3,000			
TOTAL			\$ 21,250			

Legend:

SA: Service agreement

H2A, H2B and H15 were Direct Payment codes as approved by Board of Supervisors per 2005 Ordinance NS-3.44

H2A: Purchases of goods not covered by a contract award and not available from stores. Total cost must not exceed \$2,500 per purchase including sales tax and freight, or \$5,000 if acquisition is made using a procurement card authorized by the Director of Procurement. Acquisitions from a single vendor may not be split in order to satisfy the dollar limit.

H2B: \$2,500 limit for acquisitions without a procurement card can be increased by the Director of Procurement, with approval of the the Chief Deputy County Executive, by written authorization to a department agency head.

H15: direct pay authorization in this section does not apply when Procurement Department has an existing contract for such goods.

H15: Non-recurring services that are not covered by a contract: Total cost must not exceed \$2,500 if the vendor is a corporate entity and \$1,000 for all others. The limit is \$2,500 for trainer services.

Non **Attachment: Internal Audit Report - Follow Up to Audit of Non-personnel Services and Supplies Expenditures of District 2 (77503 : Internal**

Packet Pg. 274

18.a



Supervisor George Shirakawa

District 2

DATE: December 12, 2012

TO: Vinod Sharma
Director of Finance

FROM: Supervisor George Shirakawa *GMS*
District 2

SUBJECT: Revised Response to December 11, 2012, "Audit of Object 2 (Non-personnel Services and Supplies) Expenditures of District 2 for the Period January 2009 though September 2012"

Thank you for the opportunity to respond to the audit report issued by the Controller-Treasurer on December 11, 2012. I would like to extend my appreciation to your team, particularly Manju Beher and Alan Minato, who worked with my staff with the utmost professionalism to ensure a thorough and balanced report.

On December 11, 2012, District 2 provided a response to the findings described in a draft of the Controller-Treasurer's "Audit of Object 2 (Non-personnel Services and Supplies) Expenditures of District 2 for the Period January 2009 though September 2012." The Controller-Treasurer subsequently revised its draft and issued a final report via e-mail with the District 2 response attached. Unfortunately, my office did not have the opportunity to review, analyze, and appropriately respond to the revised final report.

To that end, please see the following revised District 2 response to the findings described in the December 11, 2012 *revised final* report, "Audit of Object 2 (Non-personnel Services and Supplies) Expenditures of District 2 for the Period January 2009 though September 2012."

Recommendation 1A – District 2 Response:

- **District 2 agrees with Recommendation 1A. Supervisor Shirakawa will reimburse the remaining amount of \$403 within 30 days.**

Recommendation 1B – District 2 Response:

- **District 2 disagrees with Recommendation 1B. The County Contract Manual (see Exhibit 1) allows for P-Card use for non-recurring services not covered by a contract for service with entities that provide goods and services that serve a public purpose. These expenditures were to non-profit corporations that serve the community, so each of these expenditures qualify for P-card use under the County Contract Manual, which states,**

“Departments have authorization from the Board through Direct Payment List or the P-Card program to contract for non-recurring services not covered by a contract in an amount not to exceed \$2,500 if the vendor is a corporate entity and \$1,000 for all others.”

Notwithstanding the District 2 position with regard to Recommendation 1B and the County Contract Manual, I will seek Board approval of these transactions at the first Board meeting in January.

Recommendation 1C – District 2 Response:

- **District 2 agrees with Recommendation 1C.**

Recommendation 2A – District 2 Response:

- **District 2 agrees with Recommendation 2A. The Board should direct the County Administration and County Counsel to provide recommendations for donations as well as sponsorship of community events with County funds, and clarify the Direct Pay Ordinance.**

The expenditures described in Finding 2(a) were made to non-profit corporations that provide direct services to the community and serve a public purpose to residents of District 2. The donations and sponsorships help community-based organizations provide valuable services to needy and disadvantaged communities. Additionally, my staff worked closely with the Controller-Treasurer’s Department to ensure that the expenditures were not prohibited by County policy. Page 1 of the Controller-Treasurer report confirms that,

“We (the Controller-Treasurer’s Office) were unable to identify a specific County policy that explicitly prohibits donations without Board approval.”

Recommendation 2B – District 2 Response

- **District 2 agrees with Recommendation 2B and will file required TEVs to Controller-Treasurer's Department within 30 days.**

Recommendation 2C – District 2 Response

District 2 has confirmed with the Treasurer-Controller's office that no credits for the electric bicycles donated to the Sheriff's Office for its ongoing efforts to identify alternative energy opportunities have been made to District 2. Additionally, District 2 has not been in possession of the bicycles since the donation was made to the Sheriff's Office in 2009.

Recommendation 2D – District 2 Response

District 2 agrees with Recommendation 2B. Supervisor Shirakawa will reimburse \$57 to the County within 30 days.

Exhibit 1: County's Contract Manual



Welcome to the Contract Manual

Welcome to the County's Contract Manual

[What is a Contract?](#)

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[Glossary](#)

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Welcome to the County's Contract Manual

This Contract Manual was prepared by the Contracting Manual Committee in conjunction with countywide efforts to streamline the service contract process. It is intended to provide guidance to County employees in developing and executing contracts.

What is a Contract?

A Contract is a written document that outlines the "obligations" agreed upon between the County and a non-County entity. "Obligations" include paying money for service, but can be non-monetary, such as committing staff time, committing facility use, in-kind contributions. A contract can also be called a memorandum of understanding (MOU). All types of contracts are subject to the County's contracting process.

Whether you are working on your first County contract, or are a veteran at writing contracts, we hope that you find this manual to be helpful.

Statement of Intent

The Board of Supervisors is committed to an open and competitive process with organizations and individuals who contract with the County.

Their intent is to promote the most cost-effective use of the taxpayer's dollars while contributing to fairness and equal access to business opportunities in the County.

The Board is equally committed to following fair labor practices and supporting labor agreements that might be impacted by any contract entered into by the County.

Basic Contracting Principles

A contract is needed anytime the County of Santa Clara obligates itself to do something with a non-County agency, even if there is no exchange of money.

Only the Board of Supervisors may contract on behalf of the County unless the Board has delegated authority to a County official.

Services cannot begin without a fully executed agreement.

About The Manual

The emphasis of this manual is on contracting for **services**.

Note: Contracting with current County employees or former employees separated from the County within a

two-year period may be prohibited or strictly limited, depending on the circumstances. Please consult with your department's County Counsel for more information. The Assistant County Executive's approval is required to hire a former County retiree. The Worksheet for calculating the maximum hourly rate for agreements with former employees recently separated from the County is posted on the Forms Page of this website.

The Procurement Department handles contracting for goods and equipment up to and including \$2 million. The Procurement Department executes most of the agreements for services up to and including \$100,000 or up to and including \$500,000, if related to a current or past technology acquisition. The Procurement Department may also receive a delegation of authority from the Board to execute agreements for services over the normal limit set by the Board. The County Official (or designee) that receives the Board's delegation of authority – for example the department head or the Procurement Department, executes Board Contracts.

Suggestions for How to Use The Manual

This manual is designed to simplify and bring together the rules and procedures governing County contracts. If you are not familiar with the overall County contracting process, you may wish to review the entire manual. We recommend that you begin with the Glossary and Board Policies on Contracting and Bidding. More importantly, a Contracts Workshop is always held annually. Look for the announcement in the CountyWise Catalogue. You will find it listed under "Other Offerings."

Glossary - The glossary provides definitions of key words, phrases, and an explanation of key provisions for contract documents.

Board Policies on Contracting and Bidding - Policies related to contracting and bidding are approved by the Board of Supervisors and maintained by the Clerk of the Board. An entire section is devoted to contracting – Section 5 - Policies on Contracting and Bidding. It is highly recommended that you review this section to become better informed.

You may choose to go directly to the section or sections that apply to your specific situation and review only those elements that match your circumstances.

Who Can Execute a Contract?

The County exercises its power to contract only through the Board or a public official to whom the Board has delegated authority. The Director of Procurement is the Board's Purchasing Agent and has received a delegation of authority to purchase goods and services within certain dollar amounts, based on what is being purchased.

Five Elements of a Solicitation

There are essentially five (5) main elements that should be included in notifications to the public when contracting for services. These include the invitation, instruction to the respondents, scope of work required, price summary and the contractual obligations.

Rules and Approval Process

[Procurement Sourcing Process for Goods and Services Flowchart](#)

[Contracts from \\$10,000 - \\$100,000](#)

[Contracts over \\$100,000](#)

Services with a total contract value of up to \$2,500

Departments have authorization from the Board through the Direct Payment List or the P-Card program to contract for non-recurring services not covered by a contract in an amount not to exceed \$2,500 if the vendor is a corporate entity and \$1,000 for all others. This Direct Pay authorization can also be used for trainer services, with a limit of \$2,500.

Services with a total contract value of \$10,000 or less per fiscal year/budget unit/vendor

Review the Board's policy on Contracting and Bidding before you begin. Contracts under this category are generally processed between the department and the Procurement Department. The Procurement Department executes the contract with the exception of Contract Release contracts and Board Contracts, which are processed and executed by the departments. The agreement may be set up as a Standard Service Agreement or Non-Standard Service Agreement. Non-Standard agreements require the review of the County Counsel as to form and legality. All service contracts are processed through the SAP system. Check the

Forms Page on this website for the appropriate forms required to complete this process.

Fiscal Monitoring

Performance Monitoring

Vendor Selection

Competitive Bidding

Local Preference Used in RFP Process

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