

**SUBMITTAL TO THE BOARD OF SUPERVISORS
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA**



ITEM: 3.78
(ID # 22677)

MEETING DATE:

Tuesday, August 01, 2023

FROM : EXECUTIVE OFFICE:

SUBJECT: EXECUTIVE OFFICE: Approval of the Response to the 2022-2023 Grand Jury Report: County of Riverside Risk Associated with the Lack of Vendor Management and Direct the Response to the Grand Jury, Presiding Judge, and County Clerk-Recorder; All Districts. [\$0]

RECOMMENDED MOTION: That the Board of Supervisors:

1. Approve, with or without modification, the attached response to the 2022-2023 Grand Jury Report: County of Riverside Risk Associated with the Lack of Vendor Management; and
2. Direct the Clerk of the Board to immediately forward the Board's finalized responses to the Grand Jury, the Presiding Judge, and the County Clerk-Recorder.

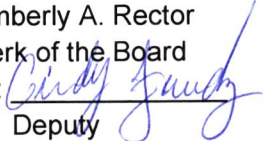
ACTION:Policy


Dave Rogers, Chief Administrative Officer 7/27/2023

MINUTES OF THE BOARD OF SUPERVISORS

On motion of Supervisor Spiegel, seconded by Supervisor Gutierrez and duly carried by unanimous vote, IT WAS ORDERED that the above matter is approved as recommended.

Ayes: Jeffries, Spiegel, Washington, Perez and Gutierrez
Nays: None
Absent: None
Date: August 1, 2023
xc: EO, Grand Jury, Presiding Judge, Recorder

Kimberly A. Rector
Clerk of the Board
By: 
Deputy

**SUBMITTAL TO THE BOARD OF SUPERVISORS COUNTY OF RIVERSIDE,
STATE OF CALIFORNIA**

FINANCIAL DATA	Current Fiscal Year:	Next Fiscal Year:	Total Cost:	Ongoing Cost
COST	N/A	N/A	N/A	N/A
NET COUNTY COST	N/A	N/A	N/A	N/A
SOURCE OF FUNDS: N/A			Budget Adjustment:	No
			For Fiscal Year:	23/24

C.E.O. RECOMMENDATION: Approve

BACKGROUND:

Summary

Penal Code Section 933(c) requires Board of Supervisors comment on the Grand Jury's recommendations pertaining to matters under the Board's control. In addition, responses must be provided to the Presiding Judge of the Superior Court within 90 days of receipt of the report.

ATTACHMENTS:

ATTACHMENT A. 2022-2023 Grand Jury Report: County of Riverside Risk Associated with the Lack of Vendor Management

ATTACHMENT B. Grand Jury Response: County of Riverside Risk Associated with the Lack of Vendor Management


 Sarah Franco, Director of Procurement & Fleet 7/25/2023

**RESPONSE TO
2022-2023 CIVIL GRAND JURY'S REPORT RE:
County of Riverside Risk Associated with
the Lack of Vendor Management**

Following is the response of the Riverside County Board of Supervisors (BOS) and Executive Office (EO) to the findings and recommendations included in the above referenced Civil Grand Jury Report pursuant to California Penal Code §§ 933 and 933.06.

The Riverside County Purchasing & Fleet Services Department, amongst other objectives, establishes procurement policies and procedures to comply with state regulations, provides procurement services, manages countywide contract implementation/compliance, and oversees the procurement card system. The Purchasing Division has recently undergone significant restructuring efforts and increased staffing levels as a result. Though starting FY 22/23 with an adopted 42 positions, the division ended FY 22/23 with an authorized staffing level of 47. The Division's adopted budget for FY 23/24 has this number remaining at 47. This is nine more than the 38 positions authorized in FY 21/22, which also includes additional Purchasing staff requested by customer departments. The total adopted budget for the Purchasing Division in the FY 22/23 adopted budget was \$4,840,850; and the adopted budget for FY 23/24 is \$5,060,908.

As part of the restructuring efforts, the Division reinstated the Procurement Compliance Officer role (it was eliminated in 2020) and the position was filled in February of 2023. Recognizing that the work of the Purchasing Division comes with inherent risks, one of the several strategic initiatives underway is forming a more robust centralized compliance program, which will include a focus contract management and vendor relations. It should be noted that vendor relations is a multi-faceted undertaking that is not wholly centralized within any one department in the County. The Auditor Controller's Office (hereinafter ACO), Purchasing, and customer departments all have varying roles and responsibilities in the deployment of contracts and vendor relationship management. Specifically, the ACO plays an important role in the oversight of vendor registration in the financial system, W9 information, and other areas, including audits, related to their expertise. Vendor service delivery oversight post-award and during the contractual period best fits with the expertise of customer departments who work more closely with the vendor, while compliance and resources such as standard operating procedures are best facilitated utilizing Purchasing's expertise.

FINDINGS

Grand Jury Finding #1:

The Grand Jury finds the County does not have documented Standard Operating Procedures (SOP) for vendor management, on post-award contracts. The Grand Jury was unable to find specific guidance for oversight of vendor management as it relates to post-award contracts for goods and/or services. There are no defined or documented responsibilities for purchasing authorities related to post-award vendor contracts. These SOP would apply uniformly to both centralized and decentralized (embedded) purchasing authorities.

Response to Grand Jury Finding #1:

The respondents disagree wholly with the finding.

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The County does have a Standard Operating Procedure for vendor management on post-award contracts. Board of Supervisors Ordinance 459, Section 5(i) specifies that the County Purchasing Agent shall "Maintain the County Purchasing Policy Manual as the source for Purchasing Staff and Department staff to obtain current information on County purchasing requirements." The Purchasing Policy Manual contains an entire section on Vendor Relations, specifically Section 12. The relevant portions as it relates to vendor management, and the responsibilities of both Purchasing and customer departments, is contained in subsection 3 as follows:

Vendor Contract Compliance - Whenever a department determines a vendor has not satisfactorily delivered the goods or services contracted for by a purchase order and/or contract, the department should address the problem by initiating a Supplier Corrective Action Form located at Purchasing's Intranet Forms website. It should never be assumed that contract performance problems will work themselves out. Departments whenever possible should give vendors the opportunity to cure issues or problems.

Once a Corrective Action Form has been issued, follow up with the contractor until the problem is resolved or contact County Purchasing. A copy of the Corrective Action Form and all related correspondence should be placed in the vendor/contract file. If the vendor does not correct the issues/problems the next step is to work with your procurement liaison to issue a cure notice. The final step in the compliance process is to issue a termination notice to the vendor. The issuance of the termination notice must be coordinated with the procurement liaison or the Procurement Services Officer. If used correctly, these corrective action procedures can influence better vendor performance, improved contracts, and increased customer satisfaction. Departments are encouraged to document and report all poor or deficient performance. End users need to understand the importance of ongoing documentation and reporting and not wait until it is time to award a new contract to decide that the product or service does not meet your needs. It is impossible for County Purchasing to disqualify products or services without previous documentation.

A copy of the Supplier Corrective Action form is located on the Purchasing Intranet site for departmental customer use. Further, the Vendor/Contractor feedback form is also located on the site and is to be used by departmental staff post-award to monitor suppliers in the areas of communication, performance, timeliness, management, professionalism, and outcome(s), as recommended by the Purchasing Manual referenced above. Finally, Purchasing staff provide training on vendor management as part of the Purchasing curriculum for those granted buying authority and having contract oversight responsibilities post-award.

Grand Jury Finding #2:

The Grand Jury finds the County has no compliance administration oversight; periodic reviews of existing contracts to determine adherence to compliance mandates and protocols and to check for nonconformities. The recently added Procurement Compliance Officer has not established the

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administration of a County-wide Contract Compliance/Audit Program.

Response to Grand Jury Finding #2:

The respondents disagree partially with the finding.

Purchasing provides compliance administration oversight when notified by customer departments that a vendor is not performing, that corrective action is warranted, and/or that termination of the contract is necessary. Departmental staff responsible for contract administration post-award are conducting periodic reviews of existing contracts and checking for non-conformities using the tools developed and available from the Purchasing Division.

The Purchasing Division underwent a major restructure in late 2022, which included the re-installation of a Procurement Compliance Officer (PCO) position. The PCO was selected in February of 2023, and Purchasing is currently in the process of developing a more robust compliance program. Components of the program will more fully address the Grand Jury findings related to compliance administration oversight and periodic reviews of existing contracts to determine adherence to compliance mandates, and protocols departmental staff should utilize to check for nonconformities.

Grand Jury Finding #3:

The Grand Jury finds the County has multiple vendor risks such as compliance, financial, information security, operational and reputation associated to regulations and best business practices, without a formal risk assessment or performance-based review (contractually agreed upon expectations) of vendors on a regular scheduled timeframe.

Response to Grand Jury Finding #3:

The respondents disagree partially with the finding.

Risk is inherent in procurement work and vendor relations, but there are several entities involved in mitigating them beyond the Purchasing Division, including the Office of the Auditor Controller, County Counsel, and county departments.

Further, as previously stated, the Purchasing Division underwent a major restructure in late 2022, which included the re-installation of a PCO position. The PCO was selected in February of 2023, and Purchasing is currently in the process of developing a more robust compliance program, which will include components aimed at more fully addressing the Grand Jury findings related to mitigating vendor risks.

Grand Jury Finding #4:

The Grand Jury finds the County has insufficiencies in the lack of required fields in the Purchasing module in PeopleSoft Financials 9.1; most prevalent being "Expire Date."

Response to Grand Jury Finding #4:

The respondents agree with the finding.

In the Peoplesoft Financials 9.1 system, the "Expire Date" field did not require an entry when a contract was entered in the module. However, the County of Riverside began an upgrade of the Peoplesoft Financials system from version 9.1 to 9.2 in April of 2022, which included modules used for procurement. Peoplesoft Financials 9.2 went live on May 30, 2023, and the "Expire Date" field, as well as other critical fields for contract administration and oversight, are required entries in the system.

Grand Jury Finding #5:

The Grand Jury finds the County has no standard procedures for optional data entered into the Purchasing module in PeopleSoft Financials 9.1; this includes contract comments, forms/templates that are uploaded, document naming conventions and linking Purchase Orders to existing established contracts. There is not any guidance or documentation to enforce consistency on vendor file structure.

Response to Grand Jury Finding #5:

The respondents disagree wholly with the finding.

The Purchasing Division ensures that current and new Procurement Contract Specialists' and others with buying authority responsible for entering the "optional" data in the system receive training and job aides on how to properly do so in the Peoplesoft 9.2 system, as was the case for previous systems used. Amongst other entry information, the job aides direct the user on how to enter a contract, how to build a standard contract naming convention, and how to successfully link a contract to a purchase order.

Grand Jury Finding #6:

The Grand Jury finds the County has no documented processes, either queries or standardized reports, to extract active contract data from PeopleSoft Financials 9.1 in order to monitor contract's pivotal milestones, such as expiration date, contract's total expended dollars, specific contract type, specific vendors, etc.

Response to Grand Jury Finding #6:

The respondents disagree wholly with the finding.

The County of Riverside began an upgrade of the Peoplesoft Financials system from version 9.1 to 9.2 in April of 2022, which included the Purchasing modules. Peoplesoft 9.2 went live on May 30, 2023. Both the former Peoplesoft Financials version 9.1 and the current version, 9.2, have query functionality with standardized and customized reporting features which provide the contract data in question.

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Grand Jury Finding #7:

The Grand Jury finds in the review of Internal Audit reports issued from 2017 through 2023, it was determined Internal Audits performed only one audit (issued in 2023) which focused on Purchasing policies and procedures. The audit highlighted several significant findings relating to "Purchasing Processes," "Purchase Orders" and "Contract Monitoring."

Response to Grand Jury Finding #7:

The respondents disagree wholly with the finding.

The ACO regularly conducts audits of county departments, and at the outset considers whether to include purchasing policies and procedures within the scope of the overall audit. If, at the initial outset of the audit, it is determined that there appear to be no significant purchasing-related concerns, they are not included in the scope. If the initial review reveals that there may be concerns or potential findings, the scope is expanded to include a review of whether purchasing policies and procedures have been adhered to by the subject department.

Further, audit reports issued by the ACO in 2022 and 2021 (specific examples listed below) included purchasing policies and procedures within the scope of the audit and contained related findings.

- 2022-013 – Behavioral Health Department Audit
- 2022-016 – Transportation (TLMA) Department Audit
- 2022-018 – Sheriff/Coroner Department Audit
- 2022-019 – Economic Development – County Service Area Audit
- 2022-021 – Riverside University Health System – Medical Center Audit
- 2021-011 – Fire Department Audit
- 2021-018 – Registrar of Voters Audit
- 2021-020 – Emergency Management Department Audit

RECOMMENDATIONS

Grand Jury Recommendation #1:

The Grand Jury recommends the Purchasing Division establish formal risk assessments on vendors. Dependent upon whether the vendor is high risk, moderate risk or low risk will dictate the spacing of assessments. High risk, at least annually. Moderate risk can be spaced to bi-annually. Low risk vendors, every three years is sufficient.

Based on Finding 3

Response to 2022-2023 Grand Jury Report
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Financial Impact: Minimal
Implementation Date: June 30, 2024

Response to Grand Jury #1:

The recommendation requires further analysis.

Performing vendor assessments is a mechanism to mitigate risks in procurement and the Purchasing Division, along with other stakeholders that manage vendor relations, will work to implement them. The scope and parameters of the recommendation that require further analysis are the tools, resources, and frequency by which the vendor risk assessments will occur.

Implementation Date: June 30, 2024

Grand Jury Recommendation #2:

The Grand Jury recommends the Purchasing Division establish performance-based reviews on vendors. These should also be frequent as it enables the County to recognize emerging issues and remediate them prior to becoming a serious problem. High risk, at least annually. Moderate risk can be spaced to bi-annually. Low risk vendors are transactional, therefore reviews are not always necessary. However, certain events or issues may warrant a more frequent review, in particular a vendor who has experienced a data breach.

Based on Findings 1, 2
Financial Impact: Minimal
Implementation Date: June 30, 2024

Response to Grand Jury Recommendation #2:

The recommendation requires further analysis.

A process is already in place for post-award vendor reviews by county departments, which includes a performance review component. Further, the performance reviews, coupled with corrective actions (i.e., cure notices, termination of contracts, etc.,) aide the County in recognizing emerging issues and remediating them before they become serious issues.

However, to strengthen the County's ability to mitigate risk related to contracts and vendor relations, Purchasing is currently in the process of developing a more robust compliance program and formalizing the specific components, which will include additional tools and training for departments to oversee contracts post-award and conduct vendor performance reviews.

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Implementation Date: June 30, 2024

Grand Jury Recommendation #3:

The Grand Jury recommends the Purchasing Division establish Standard Operating Procedures (SOP) responsibilities for post-award administration of contracts for goods and/or services. This would need to include the oversight of contract and vendor performance and ongoing monitoring of contract administration for compliance with contract requirements.

Based on Finding 1
Financial Impact: Minimal
Implementation Date: June 30, 2024

Response to Grand Jury Recommendation #3:

The recommendation has been implemented.

A Standard Operating Procedure (SOP) for vendor management on post-award administration of contracts already exists, via the Purchasing Policy Manual, at Section 12. That said, and to strengthen the County's ability to mitigate risk related to contracts and vendor relations, Purchasing is currently in the process of developing a more robust compliance program and formalizing the specific components, which will include additional tools and training for departments to oversee contracts post-award to conduct vendor performance reviews thereby ensuring compliance with the contract requirements.

Implementation Date: In effect prior to the Grand Jury report.

Grand Jury Recommendation #4:

The Grand Jury recommends the Purchasing Division establish County-wide standard procedures for optional data fields entered into the Purchasing module in PeopleSoft Financials 9.1 (and all future PeopleSoft upgrades); to include contract comments, uploaded forms/templates, document naming conventions and ensuring Purchase Orders are linked to existing established contracts.

Based on Findings 4, 5
Financial Impact: Minimal
Implementation Date: September 30, 2023

Response to Grand Jury Recommendation #4:

The recommendation has been implemented.

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Job aides and training curriculum already exist to ensure that current and new PCS's responsible for entering "optional" data in the Purchasing module system and other with buying authority do so consistent with the recommendation of the Grand Jury.

Implementation Date: May 30, 2023

Grand Jury Recommendation #5:

The Grand Jury recommends the Purchasing Division develop and incorporate standardized reporting tools to be used for routine monitoring of active contracts.

Based on Finding 6
Financial Impact: Minimal
Implementation Date: December 31, 2023

Response to Grand Jury Recommendation #5:

The recommendation has been implemented.

Peoplesoft 9.2 went live on May 30, 2023, and includes standard and customized reporting tools to aide in the routine monitoring of active contracts.

Implementation Date: May 30, 2023

Grand Jury Recommendation #6:

The Grand Jury recommends the Purchasing Division and Internal Audits, incorporate vendor management audits to review processes and ensure contracts contain adequate provisions for oversight; that vendors are held accountable for compliance with requirements; that the County's contract administrators are fulfilling their required roles. Performing a vendor management audit can help highlight potential risks, inefficiencies, and compliance issues, before they become a problem.

Based on Findings 2, 7
Financial Impact: Minimal
Implementation Date: June 30, 2024

Response to Grand Jury Recommendation #6:

The recommendation has not yet been fully implemented but will be implemented in the future.

Components of the Grand Jury recommendation are already occurring within the audits performed

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by ACO. However, Purchasing and the ACO (Internal Auditing and General Accountings) currently have regular standing meetings to discuss tools to strengthen internal controls over vendor management and through that existing process will work to implement this recommendation more fully by establishing a formal process by which vendor management audits are performed, including identification of the specific tasks to be conducted by each entity.

Implementation Date: June 30, 2024

Grand Jury Recommendation #7:

The Grand Jury recommends Internal Audits adopt the Institute of Internal Auditors six primary elements of vendor management and expand the annual audit plan to include these for all County departments.

Based on Finding 7
Financial Impact: Minimal
Implementation Date: June 30, 2024

Response to Grand Jury Recommendation #7:

The recommendation has been implemented.

The six primary elements of vendor management from the Institute of Internal Auditors represents best practices which the ACO currently follows and will continue to be used to assess if there is potential risk with each department at the beginning of their audit.

Implementation Date: In effect prior to the Grand Jury report.



RIVERSIDE COUNTY GRAND JURY

(951) 955-8990 OFFICE • (951) 955-8989 FAX

May 10, 2023

Riverside County Purchasing and Fleet Services
3450 Fourteenth St. (4th Floor)
Riverside Ca. 92501

Subject: 2022-2023 Grand Jury Report: County of Riverside Risk Associated with the Lack of Vendor Management

Dear Ms. Director, Sarah Franco:

Please note that Penal Code Section 933 et seq. specifies that you file a response with the following agencies within ninety days.

Judith C. Clark, Presiding Judge
Superior Court of California, County of Riverside
4050 Main Street
Riverside, CA 92501

Riverside County Grand Jury
Post Office Box 829
Riverside, CA 92502

Riverside County Clerk-Recorder
2720 Gateway Drive
Riverside, CA 92507

Further, it specifies that this report be kept **confidential for a minimum of two working days** prior to public release. The contents of this report will be made public after the close of business **May 15, 2023**

Sincerely,

Kori Norsell, Foreperson Pro-Tem
2022-2023 Riverside County Civil Grand Jury

P.O. Box 829 – Riverside, California 92502

County of Riverside Risk Associated with the Lack of Vendor Management

SUMMARY

The County of Riverside Purchasing and Fleet Services Department manages the divisions of Purchasing, Central Mail, Fleet Services and Surplus Operations. The 2022-2023 Riverside County Civil Grand Jury's (Grand Jury) primary focus was on the Purchasing Division.

The purpose of this report was to review the County of Riverside's (County) vendor management processes and ensure vendor management contains adequate provisions for oversight; that contractors are held accountable for compliance with requirements; and that the Purchasing staff responsible for those contracts are fulfilling their required roles. The focus of this report was limited to post-award contract administration for goods and/or services.

The County enters into hundreds of contracts for goods and/or services on an annual basis. These contracts vary significantly in the type of contract and dollar value. The Grand Jury requested from the Purchasing Division a listing of service contracts greater than \$100k, commencing in FY19-20 to current FY22-23. The number of those contracts was 1,143 and totaled \$1.8 billion. (Refer to Table 1, page 8)

The Grand Jury found that currently there is not any one County department designated to provide total oversight for the management of goods and/or procurement services contracts; however, the Purchasing Division (specifically procurement) is considered the County's in-house expert. The lack of County-wide standards results in inconsistencies and the absence of oversight fails to ensure uniformity in the performance of contract administration duties. Additionally, there are no defined and/or documented roles and responsibilities for contract administrators related to post-award contracts for goods and/or services.

During our review process of the Purchasing Division we found that procurement policies and procedures are in place (dated December 31, 2021). Although there is a section on "Vendor Relations," there are no provisions to address policies and procedures for vendor management risk, performance and mitigation.

The monitoring of vendor performance is occurring at various degrees; however, they are informal, inconsistent and not guided by defined and documented processes. We found limited guidance for contract administration at the senior management level of onboarding newly established service contracts.

Oversight of Purchasing's Procurement Contract Specialist (PCS) performance is taking place informally and on an unreliable basis for the contract's reviewed. We found that upper management tended to rely on the PCS's understanding of how to manage contracts and make certain goals are achieved.

BACKGROUND

“The Purchasing Division is led by the Purchasing Agent, who is authorized as such by law and by the Board of Supervisors (Ord. 459). The department establishes procurement policies and procedures to comply with state regulations and implements best practices to provide services with fairness and integrity. Dedicated staff provide procurement services, manage countywide contract implementation, contract compliance, procurement training, management of the procurement card system, have oversight of the county’s eProcurement/contract management system (RivcoPRO), and the county’s travel program.” The Purchasing Division has a staffing level of 42, which is four more than the approved number in FY21/22. The total adopted budget for the Purchasing Division is \$4,480,850.*

“The Purchasing Division is 68% funded by charges to departments requesting procurement contract specialists (PCS) along with a 32% General Fund contribution of \$1,558,144 in Net County Cost (NCC) to support central purchasing efforts and administrative cost.” **

In 2021-2022, the Grand Jury issued a report on the Auditor-Controller’s Office, specifically the Internal Audits Division.¹ One of the findings and recommendations was on “Contract Monitoring Reports” (reports monitoring vendors’ satisfactorily completing contractual agreements), and the fact the “County lacks summary reports and a monitoring mechanism” on contracts and vendors. The Grand Jury decided to pursue this subject matter more extensively; our primary focus on an area that has no formal, written procedures and is not consistently performed throughout the county: “Vendor Management.”

At first glance, the term “Vendor Management” may seem a bit vague and complicated. In a broad sense, this term refers to the set of tools, processes, workflows, rules and guidelines to ensure that vendor relationships provide the intended benefits to the organization without bringing excessive risk or causing harm. Throughout the vendor relationship, there are important activities, including identifying suitable vendors, pricing, contract negotiations and relationship management.² The vendor oversight process should include policies and procedures for risk management and mitigation. These help protect confidential County data, reduce the risk of delivery failure or supply chain disruption. This will assist management in having more control and accountability over its contracts.

* Source Document: FY 2022/2023 Adopted Budget – June 21, 2022

** Source Document: Purchasing and Fleet 90 Day Executive Report – Presented to the Board of Supervisors on 09-20-22

¹ 2021-2022 Riverside County Grand Jury Report: “County Leadership Failures Result in Unnecessary Financial Risks: Internal Audits Marginalized”

https://rivco.org/sites/g/files/aldnop116/files/Past%20Reports%20%26%20Responses/2021-2022/County_Leadership_Failures_Results_in_Unnecessary_Financial_Risks_5-31-22.pdf

² “What Is a Vendor Management Program”, published by Venminder Experts; December 14, 2021
<https://www.venminder.com/blog/what-is-a-vendor-management-program>

The Grand Jury recognized the risk assessments associated with the lack of vendor management. The following are five (among eight) different types of vendor risks to be aware of when evaluating third-party vendors:³

- Compliance – violation of laws, regulations and internal processes of contracts
- Financial – vendors unable to meet fiscal performance requirements
- Information security – third party unsecured access to servers and devices
- Operational – occurs when there is a shutdown of vendor processes
- Reputation – public perception of the county

The concept of vendor management is often misunderstood or forgotten about altogether. Many organizations are under the impression that procurement has the capacity and skills to manage and build strong strategic relationships with its suppliers. Procurement's role in any organization is to procure services and products, a transactional relationship. Vendor management, on the other hand, is the building block to developing and maintaining long-term strategic relationships with current and potential suppliers ensuring contractual agreements are followed.

Vendor management helps strategic vendors in performing their contractual requirements and adhering to all security, compliance, business continuity, and industry best practices to protect the interests of the County. In the world of business where there is a lack of proper vendor oversight, those that use result-based gauges are misleading themselves with a false sense of security and are essentially "flying blind". It does not know about the vendors' key capabilities, weaknesses, or any risk a vendor poses to the County operations.

The Grand Jury recognized the significance of the addition of a Procurement Compliance Officer (PCO) position within the Purchasing Division. The position was added as part of a significant reorganization within the procurement area of Purchasing⁴ (hire date was February 2023). This position is essential to safeguard contract compliance (federal, state and county) requirements, to identify and mitigate risks and to perform audits of other county departments for compliance procurement policies, regulations and procedures. This position will be responsible for the administration of a County-wide Contract Compliance/Audit Program. Additionally, the PCO will develop and present training sessions for County staff on purchasing related procedures, policies and the Contract Compliance Program.⁵

¹ "8 Types of Vendor Risks That Are Important to Monitor", published by Security Scorecard (Blog); updated July 29, 2022
<https://securityscorecard.com/blog/six-types-of-vendor-risk-that-are-important-to-monitor/>

⁴ Board of Supervisors Minute Order 3.30, Meeting Date 10-18-22
http://rivcocob.org/proceeds/2022/p2022_10_18_files/03.30001.pdf

⁵ County of Riverside Human Resources Career Opportunities – Procurement Compliance Officer
<https://www.governmentjobs.com/careers/riverside/classspecs/1088>

In the process of our investigation and research, we determined that there seemed to be inadequate processes in place to gather accumulated information for the current contracts (FY19/20 to FY22/23) the County has in place. We were informed by the Purchasing Division this was attributed to the County currently operating in two systems (PeopleSoft 9.1 and RivcoPRO). These two systems are not integrated, therefore a central repository for this data does not exist. It became apparent this type of data is not monitored and is under evaluated; no process currently exists to extract this type of data.

Upon our site visit to the Purchasing Division to review the process of entering a contract into PeopleSoft 9.1 Financials, we observed the following issues:

1. "Expire date" is not a required field
 - a. Leads to the use of expired contacts
 - b. Leads to contract ratifications
2. No consistency on contract "Comments"
 - a. Standardized in training, this may still not be followed
3. Associated documents to upload can vary; as little or as many can be added
 - a. No standardization
4. Purchase orders (upon entering data into PeopleSoft 9.1) not being linked to existing contracts, which can also lead to contract ratifications
5. No master system of vendor performance in place
 - a. No type of standardized checklists

Oversight of contract management is important as it strengthens an organization's ability to achieve its goals, allows for effective decision making and holds individuals accountable.

As noted earlier, procurement's primary function entails identifying goods and services required by the County, inquiring about their availability, and assessing suppliers based on quality, cost, and delivery conditions. Procurement looks for opportunities to reduce billable and fixed rates, maintenance and support costs, and license fees. They also review potential new vendor relationships and ensure the lowest-cost provider is strongly considered. They act as the fiduciary agents of the County to ensure the best price is negotiated for services or products the County needs to procure.

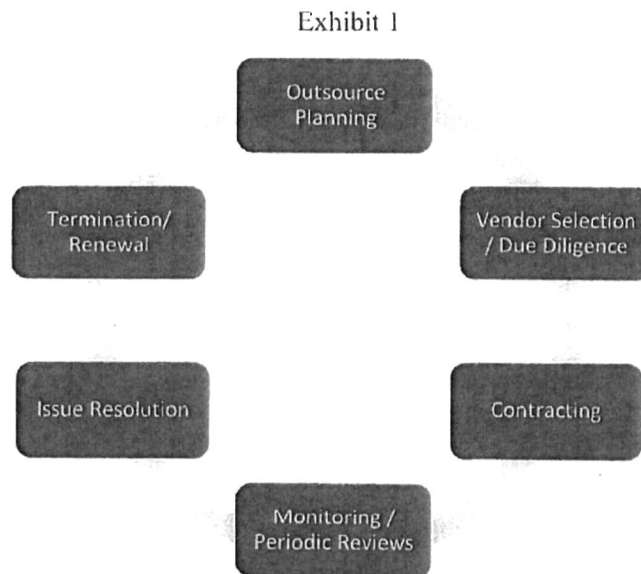
The primary responsibility of vendor oversight is to establish third-party relationships; that they are successful and risk to the County is mitigated. Vendor oversight helps strategic vendors in performing their contractual obligation and adhering to all security, compliance, business continuity, and industry best practices in protecting the interests of the County.

In the course of multiple interviews we conducted, it became a common theme amongst the interviewees that there is not a complete or thoroughly documented process of vendor management in place for the County.

Per guidance provided by the Institute of Internal Auditors,⁶ third-party relationships are viewed from a global perspective (termed Vendor Management), which is comprised of six primary elements: (Exhibit 1)

1. Outsource Planning (procurement)
2. Vendor Selection/Due Diligence (elevating and selecting)
3. Contracting (developing and memorializing terms and potential extensions)
4. Monitoring & Periodic Reviews (oversight and managing vendor performance and relationship)
5. Issue Resolution (specific tracking and resolving problems)
6. Termination/Renewal (dissolving or extending the relationship)

Because the County is partially decentralized (purchasing staff embedded in other County departments) in its approach to vendor relationships and how it addresses these six components. The primary user department may be best suited to perform standard monitoring and issue resolution activities with the vendor. This increases the need for uniform procedures and processes.



Institute of Internal Auditors: six primary elements of Vendor Management

⁶ International Professional Practices Framework (IPPF) Practice Guidance – Auditing Third-party Risk Management from the Institute of Auditors Copyright 2018

Importance of County of Riverside Auditor-Controller Internal Audits

So long as the County entrusts vendors with the safety and integrity of its critical business or data, it must monitor its vendors to verify that the data will be both protected and available. The County can outsource specific activities and functions, but it cannot outsource its responsibility for any risks associated with those actions.

Riverside County Auditor-Controller Internal Audits (Internal Audits) must play an important oversight role when it comes to vendor management. Performing vendor management audits can help highlight potential risks, inefficiencies and compliance issues prior to them becoming a problem. Internal Audits can help evaluate the design effectiveness of the existing internal controls to mitigate risk, identify process gaps and provide recommendations for improvement.

This means a periodic vendor management audit should be an essential part of the County's vendor management process and the Internal Audits' annual audit plan. A systematic and complete review is the only way to determine whether the County can safely depend on its key vendors.

METHODOLOGY

The Grand Jury conducted numerous interviews with County staff to gain an understanding of how the County manages administration and oversight of awarded contracts. Additionally, we researched and reviewed numerous documents on contract and vendor management, including other governmental audits on the subject matter. One particular audit, from the City of Winnipeg (Canada), had several similar audit findings to that of this Grand Jury's report.⁷ We also conducted one site visit to the Purchasing Department to observe the demonstration of the procurement process.

The following are interviews that were conducted:

1. County of Riverside Purchasing and Fleet Services:
 - Director
 - Assistant Director
 - Purchasing Manager
 - Procurement Compliance Officer
 - Senior Procurement Contract Specialist
 - Three total
 - Procurement Contract Specialist
2. County of Riverside Department of Information Technology:
 - Information Technology Manager III

⁷ Winnipeg Audit: Contract/Vendor Management Audit, published December 2020
<https://legacy.winnipeg.ca/audit/pdfs/reports/2020/ContractVendorManagementAudit.pdf>

- Supervisor of Enterprise Resource Planning
3. County of Riverside Executive Office:
 - Principal Management Analyst
 4. County of Riverside Auditor-Controller:
 - Deputy Auditor-Controller

Documents requested and reviewed from Purchasing Department:

- Current Organizational Chart
- Purchasing Policy Manual (dated December 31, 2021)
- A listing of service contracts greater than \$100k commencing in FY19-20 to current (FY22-23)
- Standard forms and templates located within Purchasing's Intranet Site
- Screenshots of Purchasing module in PeopleSoft Financials 9.1 and PeopleSoft Financials 9.2

Documents requested and reviewed from County of Riverside Human Resources:

- Countywide filled positions for the Purchasing Department for following positions, including those embedded within other County departments:
 - Buyer Assistant
 - Senior Buyer Assistant
 - Buyer I
 - Buyer II
 - Procurement Contract Specialist
 - Senior Procurement Specialist

The Grand Jury also reviewed the "Class Concept" (job description) of the above mentioned position titles obtained through the Human Resources website, as well as that of "Procurement Compliance Officer" (PCO). The PCO position title (Class Code 74710) was revised on October 6, 2022, from previously titled position "Compliance Contract Officer," established November 1, 1994; revised on December 11, 2014.⁸

Site Visit:

County of Riverside Purchasing and Fleet Services Offices

- Demonstration of entering a contract into PeopleSoft Financials 9.1

⁸ County of Riverside Human Resources Career Opportunities – Compliance Contract Officer
<https://www.governmentjobs.com/careers/riverside/classspecs>

DISCUSSION

Service Contracts

The Grand Jury requested from the Purchasing Division a listing of service contracts greater than \$100k, commencing in FY19-20 to current FY22-23. The request excluded any construction related contracts. *(Disclaimer: the total amount of contracts we received did in fact include construction related contracts, these were not filtered out, therefore the below stratification is skewed).*

In our review of the listing, eight contracts had no expiration date *(note: as previously mentioned, this is not a required field when entering a contract into PeopleSoft Financials 9.1)*. The Grand Jury believed these eight contracts might have been “evergreen” contracts. An evergreen contract is one in which the contract rolls over automatically and indefinitely until one party gives the other notice to terminate it. The Grand Jury received conflicting statements from our interviewees on the existence of evergreen contracts in the County.

Although evergreen contracts may have benefits, managing the contracts requires investing in a process that will assist the County to receive an alert when a contract expiration date is approaching. The County can decide if they want to continue the relationship or not, compare the vendor with a competitor, or modify that particular contract for a better fit.

The breakdown of the information we received is as follows:

- Total number of contracts: 1,143
- Total dollars of contracts: \$1,798,083,597
- Total number of contracts with no expire date: 8

The following is stratification of all contracts:

Table 1

<u>Number</u>	<u>Description</u>	<u>% of Total #</u>	<u>Dollar Value</u>	<u>% of Total \$</u>	
59	< 1yr	5.16%	\$ 108,701,736.71	6.05%	
342	1 yr	29.92%	\$ 370,319,022.89	20.60%	
381	> 1 yr, < 2yrs	33.33%	\$ 621,036,672.12	34.54%	
133	> 2 yrs	11.64%	\$ 225,039,040.82	12.52%	} 38.82% of the \$ value 31.58% of the # of contracts
68	> 3 yrs	5.95%	\$ 98,434,207.37	5.47%	
75	> 4 yrs	6.56%	\$ 210,430,299.69	11.70%	
70	> 5 yrs	6.12%	\$ 103,905,678.41	5.78%	
7	> 6yrs	0.61%	\$ 5,973,785.00	0.33%	
8	No expire date	0.70%	\$ 54,243,153.85	3.02%	
1143		100.00%	\$ 1,798,083,596.86	100.00%	

As you can see from the above total dollar value of these contracts (\$1.8 billion), the inherent risks of compliance, financial, information security, operational and reputation are tremendous to the County. These issues compound when contracts are established for multiple years.

What Vendor Information to Review ⁹

Exhibit 2



Five components of vendor review

Even after you've performed initial due diligence and the vendor is onboarded, there are plenty of items that still need to be re-reviewed on a regular basis. Reviewing the following items will ensure that your organization remains aware of any issues so they can be addressed quickly (Exhibit 2):

- **Inherent risks:** When preparing for vendor reviews, the best place to start is to confirm that the risks initially identified as part of the inherent risk process are the same. If the vendor products or services, or volumes, have either changed, expanded or scaled back, procurement staff will need to consider that as part of their vendor review. New or emerging risks may need additional controls that were not necessary before.
- **Vendor provided documentation:** Documentation and other information provided by the vendor should be reviewed to ensure that it is current and complete. Items like System and Organization Controls (SOC) reports and insurance certificates expire, and internal vendor policies have been reviewed or updated within the last two years.
- **Sufficiency of controls:** Like due diligence, procurement staff should review vendor controls and assess if they are satisfactory, providing written reports detailing their evaluation. They should also review any mitigation evidence and confirm that the issue is closed.

⁹ "When to Review Vendor Information", published by Venminder Experts (Hilary Jewhurst), February 16, 2022
<https://www.venminder.com/blog/when-review-vendor-information>

- **Vendor performance:** Confirm compliance with contractual service level agreement(s) (SLA) and key performance indicator(s) (KPI). Procurement staff must consider any proactive vendor improvements or innovations as part of the review.
- **Vendor issues or incidents:** If the vendor has had any incidents (breach, outage, business interruption, negative news story, etc.), details of the incident, response, and outcome should be reviewed. Open vendor issues, along with their associated remediation plan, progress towards closure and timing should be incorporated into the review.

Addressing Vendor Problems

Vendor reviews can confirm that all is well and that there are no urgent risks or performance issues to resolve. In that case, procurement staff can continue to follow regular risk and performance processes and review schedules. However, if problems have surfaced through the vendor review, procurement staff can continue to monitor the following:

- **Collaborate with the subject matter expert to determine the severity of the issue and its potential impacts:** If procurement staff notice insufficient or missing controls, this is the first step. Suppose the issue is severe and the vendor is classified as critical or is high-risk. In that case, you should inform senior management, apprising them with the details of the issue, any remediation plans and a timeline for correction. In some cases, there may be a need to solicit a formal risk acceptance from senior management until the problem is fixed. No matter the vendor's risk level or criticality, issues should be documented and tracked until they are resolved.
- **Review the vendor contract:** When procurement staff discover a performance decline or failure, it's recommended to review the County contract. The County's contract may have specific remedies in place to help address the situation. In addition, make sure the vendor understands the issue and can respond with a root cause analysis (what went wrong and why) and a time to implement a performance improvement plan. Procurement staff must continue to track and monitor the vendor's progress until the expected performance returns.

Well-timed, well-planned, and documented vendor reviews ensure ongoing monitoring processes are substantive and effective. Not only are they a regulatory requirement for many industries and a best practice, but are valuable risk management tools as well.

As noted in the survey "*When Technology Meets Humanity: The Future of Contract Management*" almost 70% of the costs of contract management are incurred post-award. Good contract management strategy should recognize that the true value of a contract is in its performance, not necessarily in its negotiation.¹⁰

¹⁰ <https://www2.deloitte.com/us/en/pages/tax/articles/the-value-of-post-award-contract-management.html>

Although post-award contract management requires an investment of time and resources, it can pay hefty dividends in enhanced profits and reduced losses. Contract management can also reduce revenue leakage by improving invoicing and change-order practices and ensuring that you hold your business partners accountable for their promises.

In conclusion, the County has an opportunity to improve its policies and procedures for the management of vendor contracts for both goods and services. This can be achieved by clearly defining the roles and responsibilities of PCSs, as well as that of the PCO, ensuring that contract terms are in compliance, assessing the risks of the vendor's ability to meet contract terms, and certifying continuous monitoring throughout the life cycle of the contract.

FINDINGS

F1: The Grand Jury finds the County does not have documented Standard Operating Procedures (SOP) for vendor management, on post-award contracts. The Grand Jury was unable to find specific guidance for oversight of vendor management as it relates to post-award contracts for goods and/or services. There are no defined or documented responsibilities for purchasing authorities related to post-award vendor contracts. These SOP would apply uniformly to both centralized and decentralized (embedded) purchasing authorities.

F2: The Grand Jury finds the County has no compliance administration oversight; periodic reviews of existing contracts to determine adherence to compliance mandates and protocols and to check for nonconformities. The recently added Procurement Compliance Officer has not established the administration of a County-wide Contract Compliance/Audit Program.

F3: The Grand Jury finds the County has multiple vendor risks such as compliance, financial, information security, operational and reputation associated to regulations and best business practices, without a formal risk assessment or performance based review (contractually agreed upon expectations) of vendors on a regular scheduled timeframe.

F4: The Grand Jury finds the County has insufficiencies in the lack of required fields in the Purchasing module in PeopleSoft Financials 9.1; most prevalent being "Expire Date."

F5: The Grand Jury finds the County has no standard procedures for optional data entered into the Purchasing module in PeopleSoft Financials 9.1; this includes contract comments, forms/templates that are uploaded, document naming conventions and linking Purchase Orders to existing established contracts. There is not any guidance or documentation to enforce consistency on vendor file structure.

F6: The Grand Jury finds the County has no documented processes, either queries or standardized reports, to extract active contract data from PeopleSoft Financials 9.1 in order to

monitor contract's pivotal milestones, such as expiration date, contract's total expended dollars, specific contract type, specific vendors, etc.

F7: The Grand Jury finds in the review of Internal Audit reports issued from 2017 through 2023, it was determined Internal Audits performed only one audit (issued in 2023¹¹) which focused on Purchasing policies and procedures. The audit highlighted several significant findings relating to "Purchasing Processes," "Purchase Orders" and "Contract Monitoring."

RECOMMENDATIONS

R1: The Grand Jury recommends the Purchasing Division establish formal risk assessments on vendors. Dependent upon whether the vendor is high risk, moderate risk or low risk will dictate the spacing of assessments. High risk, at least annually. Moderate risk can be spaced to bi-annually. Low risk vendors, every three years is sufficient.

Based on Finding 3

Financial Impact: Minimal

Implementation Date: June 30, 2024

R2: The Grand Jury recommends the Purchasing Division establish performance-based reviews on vendors. These should also be frequent as it enables the County to recognize emerging issues and remediate them prior to becoming a serious problem. High risk, at least annually. Moderate risk can be spaced to bi-annually. Low risk vendors are transactional, therefore reviews are not always necessary. However, certain events or issues may warrant a more frequent review, in particular a vendor who has experienced a data breach.

Based on Findings 1, 2

Financial Impact: Minimal

Implementation Date: June 30, 2024

R3: The Grand Jury recommends the Purchasing Division establish Standard Operating Procedures (SOP) responsibilities for post-award administration of contracts for goods and/or services. This would need to include the oversight of contract and vendor performance and ongoing monitoring of contract administration for compliance with contract requirements.

Based on Finding 1

Financial Impact: Minimal

Implementation Date: June 30, 2024

R4: The Grand Jury recommends the Purchasing Division establish County-wide standard procedures for optional data fields entered into the Purchasing module in PeopleSoft Financials

¹¹ Riverside County Facilities Management Audit, Report Date: February 28, 2023
<https://auditorcontroller.org/sites/g/files/aldnop171/files/2023-03/Internal%20Audit%20Report%202023-004%20Riverside%20County%20Facilities%20Management%20Audit.pdf>

9.1 (and all future PeopleSoft upgrades); to include contract comments, uploaded forms/templates, document naming conventions and ensuring Purchase Orders are linked to existing established contracts.

Based on Findings 4, 5

Financial Impact: Minimal

Implementation Date: September 30, 2023

R5: The Grand Jury recommends the Purchasing Division develop and incorporate standardized reporting tools to be used for routine monitoring of active contracts.

Based on Finding 6

Financial Impact: Minimal

Implementation Date: December 31, 2023

R6: The Grand Jury recommends the Purchasing Division and Internal Audits, incorporate vendor management audits to review processes and ensure contracts contain adequate provisions for oversight; that vendors are held accountable for compliance with requirements; that the County's contract administrators are fulfilling their required roles. Performing a vendor management audit can help highlight potential risks, inefficiencies and compliance issues, before they become a problem.

Based on Findings 2, 7

Financial Impact: Minimal

Implementation Date: June 30, 2024

R7: The Grand Jury recommends Internal Audits adopt the Institute of Internal Auditors six primary elements of vendor management, and expand the annual audit plan to include these for all County departments.

Based on Finding 7

Financial Impact: Minimal

Implementation Date: June 30, 2024

REQUIRED RESPONSES

The following responses are required, and must comply, pursuant to Penal Code §933 and §933.05 and County of Riverside Board Policy A-75:

Director of County of Riverside Purchasing and Fleet Services:

F1 – F6; R1 – R6

Riverside County Auditor-Controller:

F7; R6 – R7

Riverside County Board of Supervisors:

F1 – F6; R1 – R6

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Report Issued: 5-10-2023
Report Public: 5-15-2023
Response Due: 8-15-2023