

Internal Audit Department

O R A N G E C O U N T Y

INTERNAL CONTROL AUDIT: OC DANA POINT HARBOR HARBOR REVITALIZATION PLAN CONTRACT ADMINISTRATION AND CONTRACT PAYMENTS

For the Year Ending
December 31, 2008

We audited internal controls over contract administration and payments for the Harbor Revitalization Plan contracts at OC Dana Point Harbor (OCDPH). Because the Harbor Revitalization Plan was in the early design phase, we audited OCDPH's overall processes for contract administration and payments to determine OCDPH's effectiveness in administering future Harbor Revitalization Plan contracts. During the audit period, OCDPH administered 84 contracts totaling over \$14 million and paid over \$2 million in contract expenditures.

We tested 100% of the Harbor Revitalization Plan contracts and found internal controls and processes are in place to: (1) ensure contracts are effectively administered to prevent contract overruns and ordering from expired contracts; (2) contract payments are accurate, complete, valid, timely and have appropriate supporting documentation and management review; and (3) business processes were efficient and effective. We identified six (6) Control Findings to enhance internal controls and processes in these areas.

AUDIT No: 2820

REPORT DATE: SEPTEMBER 16, 2009

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Deputy Director: Eli Littner, CPA, CIA

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RISK BASED AUDITING

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OC Fraud Hotline (714) 834-3608



Transmittal Letter



Audit No. 2820 September 16, 2009

TO: Brad Gross, Director
OC Dana Point Harbor

FROM: Dr. Peter Hughes, CPA, Director
Internal Audit Department

SUBJECT: Internal Control Audit: OC Dana Point
Harbor - Harbor Revitalization Plan
Contract Administration and Contract
Payments

We have completed an Internal Control Audit of OC Dana Point Harbor– Harbor Revitalization Plan Contract Administration and Contract Payments for the year ending December 31, 2008. We performed this audit in accordance with the *FY 2008-09 Audit Plan and Risk Assessment* approved by the Audit Oversight Committee and the Board of Supervisors. Our final report is attached for your review.

Please note we have a structured and rigorous **Follow-Up Audit** process in response to recommendations and suggestions made by the Audit Oversight Committee (AOC) and the Board of Supervisors (BOS). As a matter of policy, our **first Follow-Up Audit** will begin at six months from the official release of the report. A copy of all our Follow-Up Audit reports is provided to the BOS as well as to all those individuals indicated on our standard routing distribution list.

The AOC and BOS expect that audit recommendations will typically be implemented within six months and often sooner for significant and higher risk issues. Our **second Follow-Up Audit** will begin at six months from the release of the first Follow-Up Audit report, by which time **all** audit recommendations are expected to be addressed and implemented.

At the request of the AOC, we are to bring to their attention any audit recommendations we find still not implemented or mitigated after the second Follow-Up Audit. The AOC requests that such open issues appear on the agenda at their next scheduled meeting for discussion.

We have attached a **Follow-Up Audit Report Form**. Your department should complete this template as our audit recommendations are implemented. When we perform our first Follow-Up Audit approximately six months from the date of this report, we will need to obtain the completed document to facilitate our review.

Letter from Dr. Peter Hughes, CPA



Each month I submit an **Audit Status Report** to the BOS where I detail any material and significant audit findings released in reports during the prior month and the implementation status of audit recommendations as disclosed by our Follow-Up Audits. Accordingly, the results of this audit will be included in a future status report to the BOS.

As always, the Internal Audit Department is available to partner with your staff so that they can successfully implement or mitigate difficult audit recommendations. Please feel free to call me should you wish to discuss any aspect of our audit report or recommendations.

Additionally, we will request your department complete a **Customer Survey** of Audit Services. You will receive the survey shortly after the distribution of our final report.

ATTACHMENTS

Other recipients of this report are listed on the **OC Internal Auditor's Report** on page 5.

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Harbor Revitalization Plan Contract Administration
and Contract Payments
Audit No. 2820***

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December 31, 2008

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Audit No. 2820

September 16, 2009

TO: Brad Gross, Director
OC Dana Point Harbor

FROM: Dr. Peter Hughes, CPA, Director
Internal Audit Department

SUBJECT: Internal Control Audit: OC Dana Point Harbor
Harbor Revitalization Plan – Contract Administration and
Contract Payments

Audit Highlight

We audited internal controls over contract administration and payments for 100% of the Harbor Revitalization Plan contracts at OC Dana Point Harbor (OCDPH). During our audit, there were four contracts for harbor revitalization totaling **\$11.6 million** and contract payments of **\$1.2 million**. Because the Harbor Revitalization Plan was in its early design phase, we audited overall processes for contract administration and payments to determine OCDPH's effectiveness in administering future contracts.

We found internal controls and processes are in place to ensure:

- (1) contracts are effectively administered;
- (2) contract payments are accurate, complete, valid, timely and have appropriate supporting documentation and management review;
- and (3) business processes were efficient and effective.

OBJECTIVES

The Internal Audit Department conducted an Internal Control Audit of contract administration and contract payment processes for the Harbor Revitalization Plan and other contracts at the OC Dana Point Harbor, which included an evaluation of the adequacy and integrity of internal controls; compliance with department and County policies, and evidence of process efficiencies and effectiveness. Our audit was conducted in conformance with professional standards established by the Institute of Internal Auditors. Our audit objectives were to determine if:

1. **Contract Administration:** Contracts are administered effectively to prevent contract overruns and ordering from expired contracts through regular monitoring and communication with contract users.
2. **Contract Payments:** Contract payments are valid, supported, allowable per contract terms, and are processed accurately, completely, timely, and in accordance with County and OC Dana Point Harbor's policies and procedures.
3. **Efficiency/Effectiveness:** Business processes are efficient and effective as related to the OC Dana Point Harbor's contract administration and contract payment processes.

BACKGROUND

By Board resolution in April 2005, the **OC Dana Point Harbor (OCDPH)** became a separate County department, formerly administered under Resources & Development Management Department (RDMD), now known as OC Public Works. OCDPH's mission is to provide a first class harbor, marina, and public recreational facility by ensuring public access to boating, fishing, picnicking, shopping, dining, jogging, and bicycling. OCDPH's core services include acting as a responsible agent for the community by safeguarding harbor environmental assets and the public's access to the coast; facilitating effective communication with various stakeholders; implementing the **Harbor Revitalization Plan**; providing resources to commercial tenants to help them meet the County's standard for customer service; and continuing to pursue improvements in harbor water quality.



Harbor Revitalization Plan

One of the main objectives of OCDPH is to complete the Harbor Revitalization Plan. The harbor has both landside and waterside components that are part of the revitalization project. At the time of the audit, OCDPH was in the design phase of the Harbor Revitalization Plan and were pending hearings with the California Coastal Commission for approval of the plan. Once final approval is received from the California Coastal Commission and the City of Dana Point, OCDPH will pursue the Coastal Development Permits. Construction could begin as soon as Fall 2010. At the time of our audit, OCDPH had **four contracts totaling \$11.6 million** for the Harbor Revitalization Plan, primarily for the design and environmental study activities.

OCDPH Contract Administration

Contracts are generally established as either Price Agreements or Purchase Order Agreements. Price Agreements are for recurring procurement of goods and services and Purchase Order Agreements are for one-time, specific procurement of goods and services. As of December 31, 2008, OCDPH had a total of **84 active contracts totaling over \$14 million** including the four Harbor Revitalization Plan contracts. OCDPH contracts are classified as Single Source, Master, Revenue, Multi-Agency, Cooperative, Bid, and Board-Approved contracts that include Architecture-Engineering (A&E) and Public Works contracts.

OCDPH contract administration responsibilities are divided into three units:

1. Administrative Unit

This unit is responsible for administration of service contracts in the Administrative Unit. The Administrative Unit is responsible for administering **Harbor Revitalization Plan** contracts during the design and planning phase.

2. Engineering Unit

This unit is responsible for administration of Architect-Engineering Service Contracts and Public Works Contracts. These are generally construction-related contracts. When the **Harbor Revitalization Plan** enters the construction phase, contracts will be administered in the Engineering Unit.

3. Operations Unit

This unit has a Deputy Purchasing Agent (DPA) that is responsible for the administration of Commodities Contracts, Fixed Assets Contracts, and Service Contracts for OCDPH.

Operating Agreements

OCDPH has four Operating Agreements with different companies for management of the following facilities:

- West Basin Marina (TBW Company)
- East Basin Marina (Dana Point Marina Company)
- Dana Point Marina Inn (Great Western Hotels)
- Shopping centers, launch ramp, dry storage (Vintage Marina Partners)

Note: The Operating Agreements are separate from the Harbor Revitalization Plan contracts and we have not included them in this audit.



Contract Payments

Invoices for contract payments are received, date-stamped, and logged by the Executive Secretary, who in turn distributes invoices for review and approval at OCDPH by contract administrators in their respective units. A Deputy Purchasing Agent (DPA) is responsible for processing invoices for contracts established in the Administrative and Operations Units, and for Architect-Engineering (A&E) contracts in the Engineering Unit. An Engineering Manager is responsible for processing all Public Works contract invoices in the Engineering Unit.

The OCDPH Director and Deputy Director are the authorized signers who approve the invoices for payment. The approved invoices are logged out by the Executive Secretary and forwarded to the A-C Claims & Disbursing or OC Public Works Accounting, based on contract type, for further processing and check issuance.

- Invoices for contracts in the Administrative and Operations Units, and Architect-Engineer contracts in the Engineering Unit are sent directly from OCDPH to Auditor-Controller Claims & Disbursing for payment approval and issuance.
- Invoices for Board-approved contracts, including Public Works contracts in the Engineering Unit, are sent to OC Public Works Accounting for review and approval. The Manager in OC Public Works/Purchasing and Contracts approves the payment before it is sent to Auditor-Controller Claims & Disbursing for check issuance.

Total OCDPH contract payments for the calendar year 2008 were approximately **\$2.1 million**. Of the total payments, about **\$1.2 million** were for Harbor Revitalization Plan contracts.

SCOPE

Our audit evaluated internal controls and processes over OCDPH's contract administration and contract payment processes for the period from January 1, 2008 through December 31, 2008. We specifically evaluated all four Harbor Revitalization Plan contracts in effect at the time of our audit, as well as other types of contracts administered by OCDPH. We evaluated the invoice payment process starting in OCDPH through OCPW Accounting and A-C Claims & Disbursing's approval and issuance of payment. We also evaluated the efficiency and effectiveness of the contract administration and payment processes. Our methodology included inquiry, auditor observation and testing of relevant documents.

SCOPE EXCLUSIONS

Our audit did not include contract bidding, evaluation, or awarding processes of the contracts tested in this audit. We also did not include the four Operating Agreements managed by OCDPH. Our audit of payment processes in OCPW Accounting and A-C Claims & Disbursing was limited to approving OCDPH contracts selected for testing in this audit.



RESULTS

We found internal controls and processes are in place to ensure: (1) contracts are effectively administered and are monitored to prevent contract overruns; (2) contract payments are accurate, complete, valid, timely, have appropriate supporting documentation and management review; and (3) business processes were efficient and effective.

We identified **(6) Control Findings** resulting in **(6) recommendations** to enhance existing controls and processes as discussed in the *Detailed Observations, Recommendations and Management Responses* section of this report. See *Attachment A* for a description of Report Item Classifications. Based upon the objectives of our audit, we noted:

- ▶ **Objective #1 – Contract Administration:** *Contracts are administered effectively to prevent contract overruns and ordering from expired contracts through regular monitoring and communication with contract users.*
- ▶ **Results:** We found overall controls and processes are in place to ensure contracts are administered to prevent overruns and ordering from expired contracts. We did note **(2) Control Findings** where contract payment spreadsheets were not consistently updated or maintained for all contracts. (See pages 6-7 for details)

- ▶ **Objective #2 – Contract Payments:** *Contract payments are valid, supported, allowable per contract terms, and are processed completely, accurately, timely, and in accordance with County and OC Dana Point Harbor's policies and procedures.*
- ▶ **Results:** We found controls and processes are in place to ensure contract payments are valid, allowable, and processed completely and accurately. We did note **(3) Control Findings** where improvement should be made in date-stamping contractor invoices upon receipt; verifying completion of contractor services; agreeing billing rates to contracts; and paying invoices timely. (See pages 8-9 for details)

- ▶ **Objective #3 – Process Efficiency/Effectiveness:** *Business processes are efficient and effective as related to the OC Dana Point Harbor's contract administration and contract payment processes.*
- ▶ **Results:** No inefficient or ineffective procedures such as backlogs or duplication of work were noted or came to our attention concerning OCDPH's contract administration and contract payment processes. We did note **(1) Control Finding** regarding no Memorandum of Understanding (MOU), or any such related agreement, between OCDPH and the Auditor-Controller for services performed for OCDPH by OCPW Accounting. (See page 10 for details)



Management's Responsibilities for Internal Controls

In accordance with the Auditor-Controller's County Accounting Manual section S-2 - *Internal Control Systems*, "All County departments/agencies shall maintain effective internal control systems as an integral part of their management practices. This is because management has primary responsibility for establishing and maintaining the internal control system. All levels of management must be involved in assessing and strengthening internal controls. Control systems shall be continuously evaluated and weaknesses, when detected, must be promptly corrected." The criteria for evaluating an entity's internal control structure is the Committee of Sponsoring Organizations (COSO) control framework. Our Internal Control Audit enhances and complements, but does not substitute for OC Dana Point Harbor's continuing emphasis on control activities and self-assessment of control risks.

Inherent Limitations in Any System of Internal Control

Because of inherent limitations in any system of internal controls, errors or irregularities may nevertheless occur and not be detected. Specific examples of limitations include, but are not limited to, resource constraints, unintentional errors, management override, circumvention by collusion, and poor judgment. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or the degree of compliance with the procedures may deteriorate. Accordingly, our audit would not necessarily disclose all weaknesses in OC Dana Point Harbor's operating procedures, accounting practices and compliance with County policy.

Acknowledgment

We appreciate the courtesy extended to us by the OC Dana Point Harbor and OC Public Works Accounting. If we can be of further assistance, please contact me directly; or Eli Littner, Deputy Director at 834-5899, or Michael Goodwin, Senior Audit Manager at 834-6066.

Attachments

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

- Members, Board of Supervisors
- Members, Audit Oversight Committee
- Thomas G. Mauk, County Executive Officer
- Alisa Drakodaidis, Deputy CEO, OC Infrastructure
- Lisa Smith, Deputy Director, OCDPH
- Shaun Skelly, Chief Assistant Auditor-Controller
- Bill Castro, Assistant Auditor-Controller, Satellite Accounting Operations
- Jess Carbajal, Interim Director, OC Public Works
- Carlos Bustamante, Director, Administration/OC Public Works
- Mary Fitzgerald, Senior Accounting Manager, OCPW Accounting Services
- Foreperson, Grand Jury
- Darlene J. Bloom, Clerk of the Board of Supervisors



Audit Objective #1 – Contract Administration

Our objective was to evaluate contract administration processes and controls to determine if contracts are administered effectively to prevent contract overruns and ordering from expired contracts through regular monitoring and communication. Contract administration is the management of all actions that must be taken to ensure compliance with contract terms after it has been awarded. Contract administration begins with the awarding of the contract and continues throughout the life of the contract. The complexity of the contract dictates the level of administration required. For example, a one-time purchase of supplies requires less administration than a three-year contract for complex services.

As such, we audited a sample of **30 contracts totaling over \$14 million** that included all four existing Harbor Revitalization Plan contracts. These contracts are administered in the OCDPH Administrative and Engineering Units, which have primary responsibility over harbor revitalization. We tested for existence and documentation of the following attributes of effective contract administration:

- Timely contract renewals, amendments, and notices of expiration.
- Communication with contractors to assure their understanding of requirements.
- Inspecting and accepting contractor performance.
- Change order administration and approvals.
- Progress reports and supporting documents.
- Orderly, accessible contract files, notes, and payment spreadsheets.
- Evidence of project completeness and close-outs (e.g. Notices of Completion).
- An evaluation of contractor performance.

Process and Control Strengths

Our audit noted that processes and controls are in place to ensure contract files are properly maintained; contract overruns are prevented; modifications to original contracts are appropriately reviewed and approved; goods received/services performed are in compliance with contract specifications; and any disputes or failures to perform are properly noted. **No exceptions were noted with the administration of the Harbor Revitalization Plan contracts we audited.**

We did note two (2) observations in other OCDPH contracts that we tested concerning *Contract Payment Spreadsheets* in contract files that we believe should be addressed:

Observation No. 1 – Maintaining Contract Payment Spreadsheets (Control Finding)

Of the 30 contracts we audited, 12 contract files (40%) did not have a *Contract Payment Spreadsheet* maintained to track contract expenditures.

Contract payment schedules should be maintained as part of every contract file in order to monitor contract expenditures, and to prevent overruns and ordering from expired contracts. OCDPH cited that *Contract Payment Spreadsheets* are not maintained for contracts with low usage, regular fixed payments, or infrequent payments. Not maintaining contractor payment schedules in such situations could result in misinformation about contractor payment status and could result in contract overruns.



Recommendation No. 1

OC Dana Point Harbor include *Contract Payment Spreadsheets* in contract files for purposes of contract administration. If a decision is made by management not to include *Contract Payment Spreadsheets* in all contract files, these contracts should be identified and the policy should be documented accordingly.

OC Dana Point Harbor Management Response:

All contract files will now include *Contract Payment Spreadsheets* for purposes of contract administration.

Observation No. 2 – Updating Contract Payment Spreadsheets (Control Finding)

Of the 30 contracts we audited, two contract files (6%) did not have the *Contract Payment Spreadsheets* updated to reflect current expenditures.

One contract was with **Doheny Plumbing, Inc.** where there was a contract modification (increased from \$10,000 to \$15,000) and seven invoice payments totaling \$11,188.66 that were not updated in the *Contract Payment Spreadsheet*. Another contract was with the **Howroyd Wright Employment Agency** where the payment schedule was not updated to reflect current payments.

Recommendation No. 2

OC Dana Point Harbor ensure that *Contract Payment Spreadsheets* maintained in contract files are updated to reflect current contract expenditures.

OC Dana Point Harbor Management Response:

All *Contract Payment Spreadsheets* will be updated monthly to reflect current contract expenditures.

Audit Objective #2 – Contract Payments

Our objective was to evaluate contract payment processes and controls to determine if payments are valid, supported, allowable per contract terms, and are processed completely, accurately, timely, and in accordance with County and OC Dana Point Harbor's policies and procedures. The contract payment process starts with the receipt of invoices at OCDPH for payment of contracted goods/services. Controls over this process should include a verification of goods/services received, and invoices should be agreed to the terms, scope of services and prices in the contract prior to approving invoices for payment.

OCDPH reviews and approves all contractor invoices for payment except for Board-approved contracts, which are generally large dollar contracts involving architect/engineering services or public works projects. These contracts are sent to **OC Public Works Accounting** to process the payment, which includes agreeing invoices to contract terms, and verifying the accuracy and completeness of the invoices.

As such, we audited a sample of **48 contract payments totaling \$565,141** that were processed and approved by OCDPH, and a sample of **10 contract payments totaling \$479,627** processed in OC Public Works Accounting. Our sample included **all Harbor Revitalization Plan contract payments** made during the audit period.



We tested for the following attributes of effective invoice processing:

- Invoices date-stamped upon receipt.
- Completeness, accuracy of contractor information on invoices.
- Verifying goods/services to contract terms, prices, billing rates.
- Supporting documents are maintained as applicable.
- Mathematical accuracy and proper account coding on invoices.
- Evidence of management review and approval by an authorized individual.
- Maintaining up-to-date contract payment schedules.
- Processing invoices within 15 days from receipt (OCDPH management expectation).

Process and Control Strengths

Our audit noted that that controls are in place and operating to ensure payments for contracted services are processed completely, accurately, timely, and in accordance with management's authorization. Even with the limited staffing in OCDPH, we found duties for processing payments were adequately segregated and there was appropriate management review and approval.

We did note the following three observations where internal controls over contract payments should be enhanced:

Observation No. 3 – Date-Stamping Invoices Upon Receipt (Control Finding)

Of the 58 contract payments we audited, 15 contractor invoices (26%) were not date-stamped when received at OCDPH.

Date-stamping contractor invoices upon receipt provides evidence of when invoices were received. OCDPH has an internal policy to process contractor invoices within 15 days of receipt. Not date-stamping invoices may result in late payments and the ability to track and monitor invoice processing times. OCDPH cited a vacant secretary position as the reason for not consistently date-stamping invoices.

Recommendation No. 3

OC Dana Point Harbor ensure all contractor invoices are date-stamped upon receipt.

OC Dana Point Harbor Management Response:

Staff limitations did result in a lapse of this control item. Policies have been implemented to ensure all incoming documents are date-stamped upon receipt. Please see attached Desktop Manual section created in April 2009 for front desk procedures, as well as the attached memo dated June 2009.

Observation No. 4 – Invoices Processing Timeframes (Control Finding)

Of the 58 contract payments we audited, 3 invoices (5%) were not processed and approved within 15-days, which is the goal by OCDPH. The payment processing timeframes for the three invoices ranged between 39 days to over one year. There was no documentation maintained in the contract files noting the reasons for the delays of these payments.



Recommendation No. 4

OC Dana Point Harbor should ensure invoices are processed within the establish timeframes. Any exceptions should be documented in the contract file explaining the reason for the delay.

OC Dana Point Harbor Management Response:

All invoices will be processed and approved within 15 days. Any further such lapses in processing will have supporting documentation.

Observation No. 5 – Verification of Services and Billing Rates (Control Finding)

Of the 58 contract payments we audited, we noted two payments (3%) where contractor services were not verified prior to paying the invoice, and two payments (3%) when the invoice billing rate did not agree to contract terms.

In one instance, there was no verification of contracted services prior to paying two invoices from **Downstream Services, Inc.** totaling \$4,605. Downstream Services, Inc. provides bi-monthly filter maintenance service for drains at Dana Point Harbor. The contractor provides OCDPH a *Services Performance Sheet* with the invoices; however, this service was not periodically verified by OCDPH. Verification of contracted services provides assurance the contractor has fulfilled their obligations to the County in a satisfactory manner. Verification could be performed on a spot check basis if it is not feasible to do with each invoice.

The other exception involved the hourly billing rate on two invoices received from **Howroyd Wright Employment Agency** for a Receptionist/Secretary for \$20.79/hour. However, the Price Agreement modifications showed an hourly rate of \$19.39. It turned out the invoiced hourly rate of \$20.79 was appropriate based on the terms of the original Price Agreement. However, there was no documentation noted in the contract file on the discrepancy between the hourly rates charged compared to the rate in the modified Price Agreement.

Recommendation No. 5

OC Dana Point Harbor should ensure verification of contracted services is performed prior to payment and that billing rates agree with contract terms, with any exceptions being documented in the contract files.

OC Dana Point Harbor Management Response:

OC Dana Point Harbor will ensure that verification of contractor services is performed prior to payment and that billing rates agree with contract terms, with any exceptions being documented in the contract files.

Audit Objective #3 - Process Efficiency/Effectiveness

Our objective was to determine if business processes are efficient and effective as related to OCDPH's contract administration and contract payment processes. No inefficient or ineffective procedures such as backlogs or duplication of work were noted concerning OCDPH's contract administration and payments. However, we did note one observation concerning OCDPH using the services of OC Public Works Accounting.



Observation No. 6 – No Memorandum of Understanding Between OC Dana Point Harbor and the Auditor-Controller (Control Finding)

Our audit noted there is no Memorandum of Understanding (MOU) between OCDPH and the Auditor-Controller that describes the work performed by OC Public Works Accounting on behalf of OCDPH.

Prior to becoming a separate department in April 2005, Dana Point Harbor was in the Resources Development and Management Department (RDMD) that is currently OC Public Works. At that time, RDMD provided administrative, financial and accounting support for the Harbor. We found that practice continues in certain areas.

For example, contractor invoices for Board-approved contracts are initially received and approved by OCDPH, but are sent to OC Public Works Accounting (OCPWA) for review and approval of the payments. We observed that OCPWA does a detailed review of contractor invoices, including comparing them to contract terms; and ensuring mathematical accuracy and completeness of invoices. The invoices are reviewed and approved by authorized personnel in OCPWA and forwarded to Auditor-Controller Claims & Disbursing for check issuance. It should be noted this work is not duplicative because OCDPH only does a limited review of these Board-approved contract invoices.

In addition to processing Board-approved invoices, OCPWA performs tasks for OCDPH that includes reconciling and tracking certain revenue sources for OCDPH Operating and Lease Agreements and filing reports required by the State. For these purposes, four OCPWA employees are permanently assigned to work on these tasks and 100% of their time is charged to a job number that is paid for by OCDPH. We also observed that OCDPH uses the "Expediter" application for purchasing functions, which was developed in RDMD to automate the purchase process.

If OCDPH is going to continue working with OC Public Works Accounting, there should be an MOU established defining the responsibilities and associated costs. Another option would be for OCDPH to acquire additional staffing resources to perform these functions, but this may not possible due to the current budget situation.

Recommendation No. 6

OC Dana Point Harbor work jointly with the Auditor-Controller to establish a Memorandum of Understanding describing the services performed by OC Public Works Accounting for OCDPH.

OC Dana Point Harbor Management Response:

OC Dana Point Harbor will coordinate with the Auditor-Controller to establish a recommended Memorandum of Understanding as stated. This task has been assigned to OC Dana Point Harbor Budget Office and will be completed by October 31, 2009.

Auditor-Controller Management Response:

Concur. We will prepare a draft MOU by November 30, 2009, and submit it to DPHD for comments and signatures.



ATTACHMENT A: Report Item Classifications

For purposes of reporting our audit observations and recommendations, we will classify audit report items into three distinct categories:

▶ **Material Weaknesses:**

Audit findings or a combination of Significant Issues that can result in financial liability and exposure to a department/agency and to the County as a whole. Management is expected to address “Material Weaknesses” brought to their attention immediately.

▶ **Significant Issues:**

Audit findings or a combination of Control Findings that represent a significant deficiency in the design or operation of processes or internal controls. Significant Issues do not present a material exposure throughout the County. They generally will require prompt corrective actions.

▶ **Control Findings:**

Audit findings concerning internal controls, compliance issues, or efficiency/effectiveness issues that require management’s corrective action to implement or enhance processes and internal controls. Control Findings are expected to be addressed within our follow-up process of six months, but no later than twelve months.

DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES



ATTACHMENT B: OC Dana Point Harbor Management Responses



COUNTY OF ORANGE
DanaPointHarbor

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September 9, 2009

Dr. Peter Hughes, CPA
County Internal Auditor
12 Civic Center Plaza
Room 232
Santa Ana, CA 92701

Subject: Internal Control Audit: OC Dana Point Harbor– Harbor Revitalization Plan Contract Administration and Contract Payments

Dear Peter,

Thank you for your letter dated June 3, 2009. As a result, OC Dana Point Harbor (OC DPH) has taken the following steps to ensure compliance with County accounting policies.

OBSERVATION #1- MAINTAINING CONTRACT PAYMENT SPREADSHEETS

All contract files will now include *Contract Payment Spreadsheets* for purposes of contract administration.

OBSERVATION #2- UPDATING CONTRACT PAYMENT SPREADSHEETS

All *Contract Payment Spreadsheets* will be updated monthly to reflect current contract expenditures.

OBSERVATION #3- DATE-STAMPING INVOICES UPON RECEIPT

Staff limitations did result in a lapse of this control item. Policies have been implemented to ensure all incoming documents are date-stamped upon receipt. Please see attached Desktop Manual section created in April 2009 for front desk procedures, as well as the attached memo dated June 2009.

OBSERVATION #4- INVOICE PROCESSING TIMEFRAMES

All invoices will be processed and approved within 15 days. Any further such lapses in processing will have supporting documentation.

DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES



ATTACHMENT B: OC Dana Point Harbor Management Responses (continued)

OBSERVATION #5- VERIFICATION OF CONTRACTOR SERVICES AND BILLING RATES

OC Dana Point Harbor will ensure that verification of contracted services is performed prior to payment and that billing rates agree with contract terms, with any exceptions being documented in the contract files.

OBSERVATION #6- NO MEMORANDUM OF UNDERSTANDING BETWEEN OC DPH AND AUDITOR-CONTROLLER

OC Dana Point Harbor will coordinate with the Auditor-Controller to establish a recommended Memorandum of Understanding as stated. This task has been assigned to OC Dana Point Harbor Budget Office and will be completed by October 31, 2009.

Thank you for your thorough Audit and recommendations to make our contract administration processes more secure. OC Dana Point Harbor appreciates the time and dedication of the Internal Audit staff.

Sincerely,

Brad Gross
Director, OC Dana Point Harbor

Enclosures (2)

cc: Alisa Drakodaidis, Deputy CEO, OC Infrastructure
Bob Franz, Deputy CEO, Chief Financial Officer
Lisa Smith, Deputy Director, OC Dana Point Harbor
Michael Goodwin, Senior Audit Manager, Internal Audit
Mary Fitzgerald, Accounting Manager, OCPW Accounting Services



ATTACHMENT B: OC Dana Point Harbor Management Responses (continued)

RE: Recommendation No. 3, Page 9

OC Dana Point Harbor
Desktop Manual
April 10, 2009

- I. Telephone- For further information, reference Telephone Manual
 - A. Transferring a Call
 - a. During a call, press the **Transfer** key. This puts the call on hold.
 - b. Dial the extension to which you want to transfer the call.
 - c. When it rings on the other end, press **Transfer** again. Or, when the party answers, announce the call and then press **Transfer**.
 - d. If the party refuses the call, press the **Resume** key to return to the original call.
 - B. Call Forwarding
 - a. Press the **CFwdAll** key.
 - b. Enter the number to which you want to forward all of your calls.
 - c. To cancel call forwarding, press the **CFwdAll** key.
- II. Mail
 - A. Date and time stamp envelope of all incoming mail.
 - B. Open mail (do not open mail addressed to Brad); date and time stamp first page.
 - C. Distribute mail to individual mailboxes.
- III. Alarm
 - A. Opening
 - a. Unlock deadbolt and door.
 - b. Alarm will beep upon opening door. Enter 4-digit code.
 - B. Closing
 - a. Close all doors and windows.
 - b. Enter 4-digit code.
 - c. Exit and lock door and deadbolt within 30 seconds.



ATTACHMENT B: OC Dana Point Harbor Management Responses (continued)

 <p>COUNTY OF ORANGE DanaPointHarbor Memorandum</p>	<p><i>Brad Gross, Director</i> 24650 Dana Point Harbor Drive Dana Point, CA 92629 Telephone: (949) 923-2236 Fax: (949) 923-3792</p>
<hr/>	
<p>DATE: August 3, 2009</p> <p>TO: OC Dana Point Harbor Employees</p> <p>FROM: Brad Gross, Director <i>BG</i></p> <p>SUBJECT: Incoming Mail Procedure</p> <hr/>	
<p>The following procedures will now govern incoming mail:</p> <ol style="list-style-type: none">1. Date and time stamp envelope of all incoming mail.2. Open mail (do not open mail addressed to Brad); date and time stamp first page.3. Distribute mail to individual mailboxes.	

DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES



ATTACHMENT C: Auditor-Controller Management Response



DAVID E. SUNDSTROM, CPA
AUDITOR-CONTROLLER

AUDITOR-CONTROLLER COUNTY OF ORANGE

HALL OF FINANCE AND RECORDS
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WILLIAM A. CASTRO
ASSISTANT AUDITOR-CONTROLLER
SATELLITE ACCOUNTING OPERATIONS

PHILLIP T. DAIGNEAU
ASSISTANT AUDITOR-CONTROLLER
INFORMATION TECHNOLOGY

July 27, 2009

TO: Brad Gross, Director
Dana Point Harbor Department

SUBJECT: Response to Internal Control Review of Dana Point Harbor Department-Harbor
Revitalization Plan Contract Administration and Contract Payments, Audit No. 2820

We reviewed the draft audit report prepared by the Internal Audit Department covering the review of internal controls over contract administration and payments at the Dana Point Harbor Department for the year ending December 31, 2008.

We concur with the recommendation made in the draft audit report that relates to Orange County Public Works (OCPW) Accounting. Our response to this recommendation is attached.

Please call Mary Fitzgerald, OCPW Accounting Manager, at (714) 834-5338 if you have any questions regarding this letter. Thank you.


David E. Sundstrom
Auditor-Controller

Attachment

cc: Peter Hughes, Director, Internal Audit Department
Shaun Skelly, Senior Director, Accounting & Technology, Auditor-Controller
Bill Castro, Director of Satellite Accounting Operations, Auditor-Controller
Mary Fitzgerald, Manager, OCPW Accounting

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INTERNAL AUDIT DEPARTMENT
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ATTACHMENT C: Auditor-Controller Management Response (continued)

Internal Audit Department
Internal Control Review of Dana Point Harbor Department –Harbor Revitalization Plan
Contract Administration and Contract Payments

Observation No. 6 – No Memorandum of Understanding Between Dana Point Harbor Department (DPHD) and the Auditor-Controller

Our audit noted there is no Memorandum of Understanding (MOU) between DPHD and the Auditor-Controller that describes the work performed by OC Public Works Accounting on behalf of DPHD.

Prior to becoming a separate department in April 2005, Dana Point Harbor was in the Resources Development and Management Department (RDMD) that is currently OC Public Works. At that time, RDMD provided administrative, financial and accounting support for the Harbor.

For example, contractor invoices for Board-approved contracts are initially received and approved by DPHD, but are sent to OC Public Works Accounting (OCPWA). We observed that OCPWA does a detailed review of contractor invoices, including comparing them to contract terms; and ensuring mathematical accuracy and completeness of invoices. The invoices are reviewed and approved by authorized personnel in OCPWA and forwarded to Auditor-Controller Claims & Disbursing for check issuance. It should be noted this work is not duplicative because DPHD only does a limited review of these Board-approved contract invoices.

In addition to processing Board-approved invoices, OCPWA performs tasks for DPHD that includes reconciling and tracking certain revenue sources for DPHD Operating and Lease Agreements and filing reports required by the State. For these purposes, four OCPWA employees are permanently assigned to work on these tasks and 100% of their time is charged to a job number that is paid for by DPHD. We also observed that DPHD uses the “Expediter” application for purchasing functions, which was developed in RDMD to automate the purchase process.

If DPHD is going to continue working with OC Public Works Accounting, there should be an MOU established defining the responsibilities and associated costs. Another option would be for DPHD to acquire additional staffing resources to perform these functions, but this may not be possible due to the current budget situation.

Recommendation No. 6

Dana Point Harbor Department work jointly with the Auditor-Controller to establish a Memorandum of Understanding describing the services performed by OC Public Works Accounting for DPHD.

Auditor-Controller Management Response

Concur. We will prepare a draft MOU by November 30, 2009, and submit it to DPHD for comments and signatures.