# 5th District - Patricia C. Bates S 0 S **District - Vacant** > Φ ⊐ ഗ Campbell 0 District - Bill σ g 3rd 0 ш 2nd District - John M.W. Moorlach C 0 1st District - Janet Nguyen

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5'" Largest County in the US

### FINAL CLOSE-OUT FIRST FOLLOW-UP AUDIT:

## INTERNAL CONTROL AUDIT: OC DANA POINT HARBOR HARBOR REVITALIZATION PLAN

### CONTRACT ADMINISTRATION AND CONTRACT PAYMENTS

### ORIGINAL AUDIT No. 2820

### AS OF APRIL 1, 2010

Our First Follow-Up Audit found OC Dana Point Harbor (OCDPH) fully implemented all six (6) recommendations from our original audit report dated September 16, 2009. OCDPH administered 84 contracts totaling over \$14 million and paid over \$2 million in contract expenditures during the original audit period between January 1, 2008 and December 31, 2008.

> AUDIT NO: 2927-C REPORT DATE: APRIL 8, 2010

Director: Dr. Peter Hughes, MBA, CPA Deputy Director: Eli Littner, CPA, CIA Senior Audit Manager: Michael Goodwin, CPA, CIA Senior Auditor: Abdul Khan, CPA, CIA

### **RISK BASED AUDITING**

GAO & IIA Peer Review Compliant - 2001, 2004, 2007

2009 Association of Certified Fraud Examiners' Hubbard Award For the Most Outstanding Article of the Year

2008 Association of Local Government Auditors' Bronze Website Award

2008

2005 Institute of Internal Auditors' Award for Recognition of Commitment to Professional Excellence, Quality, and Outreach



#### GAO & IIA Peer Review Compliant - 2001, 2004, 2007

**Providing Facts and Perspectives Countywide** 

#### **RISK BASED AUDITING**

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Eli Littner Deputy Director	CPA, CIA, CFE, CFS, CISA Certified Fraud Specialist (CFS) Certified Information Systems Auditor (CISA)
Michael Goodwin Senior Audit Manager	CPA, CIA
Alan Marcum Senior Audit Manager	MBA, CPA, CIA, CFE
Autumn McKinney Senior Audit Manager	CPA, CIA, CISA, CGFM Certified Government Financial Manager (CGFM)

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To access and view audit reports or obtain additional information about the OC Internal Audit Department, visit our website: <u>www.ocgov.com/audit</u>



OC Fraud Hotline (714) 834-3608

### Letter from Dr. Peter Hughes, CPA





### **Transmittal Letter**

Audit No. 2927-C April 8, 2010

- TO: Brad Gross, Director OC Dana Point Harbor
- **FROM:** Dr. Peter Hughes, CPA, Director Internal Audit Department
- SUBJECT: First and Final Close-Out Follow-Up Internal Control Audit: OC Dana Point Harbor – Harbor Revitalization Plan Contract Administration and Contract Payments, Original Audit No. 2820, Issued September 16, 2009

We have completed a First Follow-Up Audit of the Internal Control Audit for OC Dana Point Harbor (OCDPH) - Harbor Revitalization Plan contract administration and contract payments. Our audit was limited to reviewing, as of April 1, 2010, actions taken to implement the six (6) recommendations from our original audit. We conducted this First Follow-Up Audit in accordance with the *FY 09-10 Audit Plan and Risk Assessment* approved by the Audit Oversight Committee and Board of Supervisors (BOS).

The results of our First Follow-Up Audit are discussed in the **OC Internal Auditor's Report** following this transmittal letter. Because satisfactory corrective action has been taken for the six audit recommendations, **this report represents the close-out of the original audit.** We commend OCDPH for their timeliness and responsiveness in taking corrective actions on our audit recommendations.

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.

Other recipients of this report are listed on the **OC Internal Auditor's Report** on page 3.

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#### Audit No. 2927-C

April 8, 2010

TO:	Brad Gross, Director OC Dana Point Harbor
FROM:	Dr. Peter Hughes, CPA, Director
SUBJECT:	First and Final Close-Out Follow-Up Audit of Internal Control Audit: OC Dana Point Harbor – Harbor Revitalization Plan Contract Administration and Contract Payments, Original Audit No. 2820, Issued September 16, 2009

### Scope of Review

We have completed a First Follow-Up Audit of the Internal Control Audit for OC Dana Point Harbor (OCDPH) – Harbor Revitalization Plan contract administration and contract payments. Our audit was limited to reviewing, as of April 1, 2010 actions taken to implement the six (6) recommendations from our original audit report dated September 16, 2009 (Audit No. 2820).

### Background

We conducted an audit of internal controls over contract administration, contract payments and sole source contracts, which included an evaluation of the adequacy and integrity of internal controls; compliance with department and County policies; and evidence of business process efficiency and effectiveness. During the original audit period, OCDPH administered 84 contracts totaling over \$14 million and made over \$2 million in contract payments. We included all contracts for the **Harbor Revitalization Plan** in both our original audit and follow-up audit.

### Results

Our First Follow-Up Audit indicated that OCDPH fully implemented all six (6) recommendations. As such, this report represents the final close-out of the original **audit.** Based on the First Follow-Up Audit we conducted, the following is the implementation status of the six recommendations:

### 1. <u>Maintaining Contract Payment Spreadsheets</u> (Control Finding)

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.

<u>Current Status:</u> **Implemented.** OCDPH includes *Contract Payment Spreadsheets* in all contract files for purposes of contract administration. We tested a sample of ten (10) contracts and found that *Contract Payment Spreadsheets* were maintained in all contract files for purposes of contract administration. No exceptions were noted. Therefore, we consider this recommendation implemented.



### 2. Updating Contract Payment Spreadsheets (Control Finding)

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

<u>Current Status:</u> **Implemented.** OCDPH ensures that *Contract Payment Spreadsheets* maintained in contract files are updated to reflect current contract expenditures. We tested a sample of ten (10) contracts and found that *Contract Payment Spreadsheets* maintained in contract files were updated to reflect current contract expenditures. No exceptions were noted. Therefore, we consider this recommendation implemented.

#### 3. Date-Stamping Invoices Upon Receipt (Control Finding)

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

<u>Current Status:</u> **Implemented.** OCDPH ensures that all contractor invoices are datestamped upon receipt. We tested a sample of nineteen (19) paid contractor invoices and found that all contractor invoices were date-stamped upon receipt. No exceptions were noted. Therefore, we consider this recommendation implemented.

#### 4. Invoice Processing Timeframes (Control Finding)

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.

<u>Current Status:</u> **Implemented.** OCDPH ensures that invoices are processed within the establish timeframes and any exceptions are documented in the contract file explaining the reason for the delay. We tested a sample of nineteen (19) paid contractor invoices and found that all contractor invoices were processed within fifteen (15) days, which is the timeframe established by OCDPH. No exceptions were noted. Therefore, we consider this recommendation implemented.

### 5. <u>Verification of Services and Billing Rates</u> (Control Finding)

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.

<u>Current Status:</u> **Implemented.** OCDPH ensures 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. We tested a sample of nineteen (19) paid contractor invoices and found that verification of contracted services was performed prior to payment and that billing rates agreed with contract terms. No exceptions were noted. Therefore, we consider this recommendation implemented.



#### 6. <u>No Memorandum of Understanding Between OC Dana Point Harbor and the</u> <u>Auditor-Controller (Control Finding)</u>

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.

<u>Current Status:</u> **Implemented.** OCDPH worked jointly with Auditor-Controller to establish a Memorandum of Understanding describing the services performed by OC Public Works Accounting for OCDPH. We obtained and reviewed the Memorandum of Understanding (MOU) between OCDPH and Auditor-Controller established in November 2009 that describes the services performed by OC Public Works Accounting for OCDPH. We found it to be detailed in its descriptions of responsibilities and properly authorized. Therefore, we consider this recommendation implemented.

We appreciate the cooperation and assistance extended to us by the personnel of OCDPH during our First Follow-Up Audit. If you have any questions, please contact me directly or Eli Littner, Deputy Director at 834-5899, or Michael Goodwin, Senior Audit Manager at 834-6066.

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

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