

County of Ventura
AUDITOR-CONTROLLER
MEMORANDUM

To: Lyn Krieger, Director, Harbor Department

Date: October 10, 2012

From: Christine L. Cohen

Subject: PERFORMANCE OF LIMITED PROCEDURES REGARDING THE ADMINISTRATION OF THE HARBOR DEPARTMENT'S SERVICE COSTS BILLED TO THE CITY OF OXNARD FUNDED BY COMMUNITY FACILITIES DISTRICT NO. 4

We have completed limited audit procedures applied to the Harbor Department ("Harbor") regarding the administration of the service costs billed to the City of Oxnard ("City") funded by the City's Community Facilities District ("CFD") No. 4. The results of our limited audit procedures are summarized below.

BACKGROUND

In 2002, to settle issues raised by the Seabridge at Mandalay Bay development ("Seabridge") in Oxnard, the County of Ventura ("County"), the City, and the developer, OLY Mandalay Bay General Partnership, entered into a memorandum of understanding/legal settlement agreement ("MOU"). The Seabridge MOU provides for all necessary County funding at the cost of CFD No. 4 to employ three Harbor Patrol Officers ("HPO") (Level II, top range) and one Sergeant (HPO Level III), and to purchase, maintain, repair, and replace specified Harbor Patrol boats, equipment, and furnishings every 5 years or sooner if beyond repair.

County costs are billed at the beginning of the fiscal year ("FY") at budgeted amounts, with true-up of actual costs submitted on the next year's invoice. Actual County costs submitted to the City for reimbursement from CFD No. 4 for FY 2010-11 amounted to \$495,180. This represented an increase of 5 percent from the \$470,097 in actual costs reported for the prior FY 2009-10, which followed 2 years of decreases in actual costs.¹ The FY 2010-11 increase was mainly due to increases in HPO salaries and benefits, and patrol boat maintenance costs.

The Seabridge MOU also requires that the City pay an additional \$100,000 annually to the County funded by CFD No. 4 for the added value to the Seabridge community that the Channel Islands Harbor provides. Total FY 2010-11 Harbor costs of \$595,180 accounted for 42 percent of the \$1.43 million FY 2010-11 tax levy for CFD No. 4.

In 2005, as required by the Seabridge MOU, the County proposed a service agreement that clarified the services to be provided by the County, limitations on services, and the method of invoicing the City. Although the Seabridge Service Agreement was agendized for approval by the County Board of Supervisors ("BOS"), the item had to be continued on several different occasions and was never approved by the BOS due to lack of approval by the Oxnard City Council.

¹ FY 2008-09 and FY 2009-10 actual costs decreased by 5 percent and 2 percent, respectively, compared to prior year actuals.

SCOPE

Our overall objective was to evaluate the administration of Harbor's service costs billed to the City funded by CFD No. 4. Specifically, we:

- determined whether Harbor's service costs from July 1, 2010, through June 30, 2011, billed to the City were in accordance with the Seabridge MOU; and
- determined whether the annual \$100,000 added-value payment was paid to the County in accordance with the Seabridge MOU.

We reviewed: patrol work schedules; payroll classification information; documentation supporting operating and miscellaneous costs; invoices submitted to the City; checks received for the annual added-value payment; the Seabridge MOU; and other pertinent documents. For our limited procedures engagement, we used documents and records for the period June 2000 through April 2012.

FINDINGS

Overall, we found that Harbor's service costs billed to the City were allowable in accordance with the Seabridge MOU. The City was billed for actual costs of salaries and benefits for three HPO Level II positions and one HPO Level III position (all at or near top range) for FY 2010-11 amounting to \$455,261. Salary costs agreed to position specifications, patrol schedules supported actual patrol services provided, and documentation supported operating costs of \$39,919. We also verified that the annual \$100,000 added-value payment was paid to the County in accordance with the Seabridge MOU.

However, establishing a service agreement, which is required by the Seabridge MOU, would provide the opportunity to clarify certain significant elements of the patrol services to be provided and corresponding costs. Following are details of the areas where improvements were needed.

Lack of Service Agreement. Although Harbor has attempted to enforce the Seabridge MOU provision requiring the establishment of a service agreement between the County and the City, a service agreement has not been established. The Seabridge MOU stated that either: 1) the Westport Service Agreement² shall be expanded to include Seabridge; or 2) a separate Seabridge Service Agreement shall be established. Although Harbor first proposed a separate Seabridge Harbor Patrol Service Agreement to the BOS on November 22, 2005, the item was continued on several occasions and never approved due to lack of approval by the Oxnard City Council. The County continued to request action by the Oxnard City Council for almost 4 years from 2005 to 2009 without success. Following are certain concerns noted during our engagement that have not been addressed and could be incorporated into a service agreement should the City agree to amend the item.

² The 2004 Westport Service Agreement was established pursuant to the 2000 Westport MOU, which specified that patrol services would be provided for the Westport and Mandalay Bay waterways funded by CFD No. 2 at an annual charge of \$135,000. The Seabridge MOU incorporated applicable patrol provisions of the Westport MOU by reference.

- A. **Establishing Service Level Expectations.** Although funding levels for Seabridge harbor patrol services were specified in the Seabridge MOU, corresponding service levels have not been specified, resulting in unclear service level expectations. For example, our review of patrol schedules confirmed that harbor patrol services were provided 24 hours per day, 365 days per year ("24/365") for the Seabridge, Westport, and Mandalay Bay waterways as a whole.³ However, although the Westport Service Agreement stated that services would be provided 24/365, this expectation has not been established for Seabridge. We also noted that these patrol services were provided nearly 60 percent of the time by HPO Level I and Trainee positions, while the Seabridge MOU specified funding for HPO Level II positions. Defining the positions providing the services and other service level expectations would establish a clear understanding between the parties.
- B. **Specifying Labor Cost Calculations.** The method of determining HPO labor costs has not been specified, potentially resulting in net County funding for harbor patrol services provided to Seabridge using fully developed labor rates. The Seabridge MOU stated that "the CFD will provide County with all funds reasonably needed for County to hire and continuously employ" three HPO Level II positions and one HPO Level III position. Harbor charged the actual salaries and benefits for these positions and did not charge the fully developed labor rate, which would include overhead. Applying an averaged developed rate for each funded position for FY 2010-11, Harbor could have billed the City an additional \$190,000. This also approximated the additional amount we estimated using averaged developed rates for the actual services provided 24/365 by HPO Level III, II, I, and Trainee positions after applying CFD No. 2 funding.⁴ Specifying how labor costs will be calculated, whether based on fully developed labor rates or otherwise, is necessary to support the labor costs charged.
- C. **Identifying Billable Costs.** Establishing a service agreement could strengthen the identification of costs that will or will not be billed to the City to provide for patrol services established by the Seabridge MOU. In addition to providing funding for HPO positions, the Seabridge MOU specified funding for Harbor "to purchase, maintain, repair, and replace" certain furniture, fixtures, and equipment. However, Harbor billed the City for over \$14,000 in costs during FY 2010-11 that, although appeared reasonably necessary to provide patrol services, were not clearly identifiable as billable costs as follows:
- Approximately \$14,400 in fuel costs. Although fuel is necessary to operate the patrol boats and vehicle, the Seabridge MOU did not include a provision for costs to "operate" the equipment or for fuel specifically.
 - Approximately \$200 in closed circuit television costs. Although Harbor stated that the service was necessary to secure the equipment and docks, the Seabridge MOU did not include a specific provision for this type of cost.

Also, although Harbor did not bill for County Counsel fees during FY 2010-11, County Counsel fees of \$2,500 were billed to the City during the prior FY 2009-10 when not specifically allowed under the Seabridge MOU.

³ Patrol schedules demonstrated that services were provided by one HPO Level II, I, or Trainee per 8-hour shift, with three shifts per day for 24-hour coverage. A Sergeant (HPO Level III) was regularly scheduled to oversee daily operations.

⁴ Using averaged labor rates without overhead, we estimated that the amount billed for actual services provided 24/365 during FY 2010-11 by HPO Level III, II, I, and Trainee positions exceeded Harbor's cost by \$65,000 after applying CFD No. 2 funding.

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STATUS OF MANAGEMENT RESPONSE

Harbor management planned to provide responses to this report at a later date. When responses are provided, we will evaluate the responses and attach a copy to this report.

We appreciate the cooperation and assistance extended by you and your staff during our performance of these limited audit procedures.

cc: Honorable John C. Zaragoza, Chair, Board of Supervisors
Honorable Peter C. Foy, Vice Chair, Board of Supervisors
Honorable Steve Bennett, Board of Supervisors
Honorable Linda Parks, Board of Supervisors
Honorable Kathy Long, Board of Supervisors
Michael Powers, County Executive Officer