

County of Ventura
AUDITOR-CONTROLLER
MEMORANDUM

To: Mark Sandoval, Director, Harbor Department

Date: July 31, 2019

From: Jeffery S. Burgh

Subject: VALIDATION OF THE 2015 CONTROL SELF-ASSESSMENT FOR THE
VENTURA COUNTY HARBOR DEPARTMENT

We have completed our engagement to validate the internal controls reported in the 2015 Control Self-Assessment for the Ventura County Channel Islands Harbor Department ("Harbor Department" or "Harbor"). The results of our validation are summarized below.

BACKGROUND

In an effort to promote strong internal controls Countywide, the Auditor-Controller and County Executive Office have jointly established a Control Self-Assessment ("CSA") Program. The CSA Program requires departments to formally assess the adequacy of internal controls at least once during the multi-year program cycle and report the results to the Auditor-Controller's Office for review and validation. The Harbor Department submitted complete materials for the current 2015 CSA Program cycle on April 27, 2016.

The Harbor Department operates Channel Islands Harbor, consisting of approximately 310 acres of land and water, as a recreational and business facility. Harbor services include maintenance of nearby County and State-owned public beaches. Harbor's Capital Projects Division ("HCP") coordinates the planning, design, and construction of capital improvements for Harbor facilities. For fiscal year 2018-19, Harbor Administration was authorized 40 positions and combined appropriations of \$10.5 million, and HCP was authorized appropriations of \$2.3 million.

On December 17, 2013, the Board of Supervisors approved a \$1,041,668 contract with GRD Construction for payment out of the HCP budget to replace the Silver Strand Beach lifeguard tower and public restroom ("GRD Contract"). As allowed by the contract, the Harbor Director approved three change orders totaling \$22,732, thereby increasing the total paid to GRD Construction to \$1,064,400. Construction was completed on September 17, 2014, and the final contract payment was made to GRD Construction on March 24, 2015.

SCOPE

Our overall objective was to evaluate, on a test basis, the information reported in Harbor's CSA. Specifically, we verified that selected internal controls were in place and operating effectively as reported in the department's CSA, with specific focus on the GRD Contract. This engagement did not verify the status of any planned internal control improvement actions, as Harbor did not identify any internal control improvement opportunities through participation in the 2015 CSA Program.

We performed tests and evaluations using documents and records provided by Harbor for the period September 2013 through March 2015. The engagement was performed in conformance with the *International Standards for the Professional Practice of Internal Auditing* promulgated by The Institute of Internal Auditors.

This engagement does not provide an opinion on the design and implementation of the department's overall system of internal control.

VALIDATION RESULTS

In general, we found that the selected internal controls were in place and operating effectively as reported in the department's CSA. For example, we found that Harbor has established and implemented procedures to ensure that:

- Competitive bidding for construction contracts is used as required.
- Invoice processing steps prevent or detect duplicate payments.
- A ready audit trail exists from Harbor source documents to amounts recorded in the Ventura County Financial Management System ("VCFMS").

However, we identified areas where Harbor could improve existing internal controls to verify the accuracy of vendor invoices and to comply with the California Public Contract Code ("PCC") regarding timely payments to contractors. Harbor management initiated corrective action during our validation as noted.

1. **Control Needing Improvement: Invoice Verification Against the Contract.** Amounts billed on invoices did not always tie to the contract. County Administrative Policy No. Chapter VII (A) – 7, *Claims Processing*, stated that prior to entering invoices into VCFMS, departments should verify invoices are correct and match the invoice to the contract. Of the 11 invoices paid on the GRD Contract, 9 invoices (82%) were paid with billing errors where two contract items were each billed at the other's contract price. While the billing errors did not result in overpayment on the GRD Contract, the County's risk of overpayment increases when inaccurate invoices are entered into VCFMS.

Recommendation. Harbor should ensure amounts billed on invoices are accurate prior to entering the invoices into VCFMS for payment.

Management Action. Harbor management stated: "Harbor Management agrees that invoices should be verified against the contract and the billing errors indicated above did not result in any overpayment. In the future, Harbor staff will review the invoice for errors and consistency with related contract prior to authorizing payment. Any discrepancies will be resolved and corrected invoices will be requested, if necessary."

2. **Control Needing Improvement: Timely Contractor Payments.** Harbor's procedures were not always adequate to comply with the PCC regarding proper documentation of timely payments and timely notification of the reasons for delayed payments.

- A. **Missing Invoice Receipt Date.** Invoice receipt dates were not always documented, placing the County at risk of incurring interest on the balance of a properly submitted construction invoice. PCC Section 20104.50(b) stated: "Any local agency which fails to make any progress payment within 30 days after receipt of an undisputed and properly submitted payment request from a contractor on a construction contract shall pay interest to the contractor equivalent to the legal rate set forth in subdivision (a) of Section 685.010 of the Code of Civil Procedure." For 9 (82%) of the 11 invoices paid on the GRD Contract, no record existed of the date the invoice was received by Harbor. Using the notary date on the invoices as the earliest date an invoice would have been received, we confirmed that six of the nine (67%) invoices were paid within 30 days of the notary date. However, three of the nine (33%) invoices were paid well over 30 days after the notary date, although we could not verify timely payment due to the missing invoice receipt date.

Recommendation. Harbor should record the receipt date on every invoice submitted by the contractor.

Management Action. Harbor management stated: "Harbor Management agrees that timely payment of an invoice is important and that it is required by PCC Section 20104.50(b). In the future, Harbor Management will require that the received date be recorded on the front of all project invoices. This will eliminate any issue resulting from only retaining single-sided copies of invoices."

- B. **Delayed Payment Not Explained.** Delayed payments were not always explained with timely written notice to the contractor. PCC Section 20104.50(c)(2) stated: "Any payment request determined not to be a proper payment request suitable for payment shall be returned to the contractor as soon as practicable, but not later than seven days, after receipt. A request returned pursuant to this paragraph shall be accompanied by a document setting forth in writing the reasons why the payment request is not proper." One GRD invoice with a receipt date was paid 51 days after receipt. However, no documentation supported that the contractor was provided written notification of any problems with the invoice that would cause payment to be delayed. The County is at risk of incurring interest on the invoice when payment is delayed without written justification to the contractor within 7 days of receipt of the invoice.

Recommendation. Harbor should provide contractors written notification within 7 days of receipt detailing the reasons why an invoice is not proper and is being returned. Documentation of written notification should be retained with the invoice in the project files.

Management Action. Harbor management stated: "Harbor Management agrees that documentation of discrepancies on invoices should be retained and that if the issue cannot be resolved timely then the invoice should be returned. The Harbor has a standard practice that requires every project invoice to be reviewed and the work verified before payment can be authorized. Any discrepancies between the invoice and the actual work performed had to be resolved before payment

was made. Contractors were notified of the discrepancy through an email or telephone conversation. Based upon this standard practice and from discussions with Harbor Management, the three invoices in question were disputed with the contractor. Unfortunately, the emails were not printed and are no longer available for review. There is no documentation that indicates that the contractor had any concern with the date of payment. The contractor did not request interest. In the future, Harbor Management will properly document any disputed invoices and return invoices for which the issue cannot be resolved timely. In addition, the documentation will be retained in the project files."

AUDITOR'S EVALUATION OF MANAGEMENT ACTION

We believe that management actions taken or planned were responsive to the validation findings. Harbor management planned to complete corrective actions by July 23, 2019.

We appreciate the cooperation and assistance extended by you and your staff during this engagement.

cc: Honorable Steve Bennett, Chair, Board of Supervisors
Honorable Kelly Long, Vice Chair, Board of Supervisors
Honorable Linda Parks, Board of Supervisors
Honorable Robert O. Huber, Board of Supervisors
Honorable John C. Zaragoza, Board of Supervisors
Michael Powers, County Executive Officer