



Auditor-Controller

Internal Audit

Development Services Department:

Assessment of Internal Controls Over Senate Bill 1 Expenditures

IA2019-01

6/1/2020

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EXECUTIVE SUMMARY

The Internal Audit Division (IA) of the Auditor-Controller (A-C) department completed an audit of the Development Services department (DS) surrounding the compliance of Senate Bill 1 (SB1). The objective of the audit was to determine whether adequate internal controls exist to provide reasonable assurance on the processes of expending funds earmarked by the State of California for funding road maintenance and rehabilitation.

Accountability and transparency in the use of public funds is of utmost importance. Sutter County (County) has the responsibility to ensure compliance in spending these funds in accordance with legal restrictions.

IA concluded that adequate internal controls were in place surrounding the processing of the County's expenditures. However, we noted certain areas where the process could be improved. This report includes 4 findings and 8 recommendations. The details of these findings and recommendations can be found in the section titled *Objective, Scope and Methodology*. The following is the summary of our findings.

Finding A: SB1 Funds Were Not Clearly Separated in the Financial System

DS management proposed to track SB1 funds separately by setting up a new budget unit. A-C has determined it would be best to set up a new program number.

Finding B: Process to Purchase Low-Cost Goods Could be Streamlined

A-C is in the process of making procurement cards (pcards) available for County business. We recommend the use of pcards when the program is put in place.

Finding C: Reconciliation of SB1 Projects Could be Performed More Timely

Timely reconciliations of the general ledger along with worksheets and other standalone systems could facilitate the annual State mandated reporting.

Finding D: Contract Management Processes Could be Improved

A completed contract with Bender Rosenthal Inc. had no hourly rate in place when the contract and amendments were signed. The rate sheet was provided after the fact as follow up documentation upon inquiry of IA.

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INTRODUCTION

Internal Audit (IA) is a division of the office of the Auditor-Controller. This division was reestablished in 2016 because of renewed focus on internal audit by the newly elected auditor-controller. The role of internal audit is to provide independent assurance that an organization's risk management, governance and internal control structure are operating effectively. We must be independent from the operations we evaluate and report on to the Grand Jury/Board of Supervisors Joint Audit Committee. IA enhances governance through the implementation of our recommendations and promotes accountability by identifying department management responsible for areas of concern, issues or findings.

IA helps Sutter County to succeed by dealing with issues that are fundamentally important to the survival and prosperity of our organization. We look beyond financial risks and statements to consider wider issues such as the County's reputation, growth, the impact on the community and the use of taxpayer dollars.

The mission of IA is to independently assess and report on Sutter County operations and services. The audit function is an essential element of the County's public accountability. Our audits provide the Board of Supervisors, Grand Jury, County management, and the general public with independent and objective information regarding compliance, operational efficiency, and the adequacy and effectiveness of internal controls used in operations and reporting.

This audit was conducted in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We limited our work to those areas specified in the *Objective, Scope, and Methodology* section of this report.

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BACKGROUND

General

Overview

Senate Bill 1 (SB1) is also known as the Road Repair and Accountability Act of 2017. The bill created the Road Maintenance and Rehabilitation Program which provides funding for the repair and rehabilitation of the aging infrastructure of the state highway systems and local network of roads. SB1 funding is from several sources including fuel excise taxes, certain vehicle registration fees, and federal funds. These funds are deposited in the Road Maintenance and Rehabilitation Account (RMRA).

Funding

In fiscal year 2017-18, Sutter County received \$825,265 in RMRA reimbursements. In fiscal year 2018-19, the County received \$3,440,124. Thereafter, the estimated revenue for each fiscal year is anticipated to be \$3.4M.

Spending

The total expenditures reported to the State was \$423,967 for fiscal year 2018-19 resulting in \$3,016,157 retained for on-going projects.

Projects

The County has five projects that are funded, at least in part, with SB1 funds. These projects include road overlay, road seals, and three truck route intersections.

Audit Specific

With the anticipation of increased apportionment in future years along with the need for accountability of public funds, IA performed an audit on the disbursement of SB1 funds.

According to Government Auditing Standards, the internal control audit objectives include determining whether “resources are used in compliance with laws, regulations, or other requirements” and “incurred or proposed costs are in compliance with applicable laws, regulations, contracts, or grant agreements”.

The following are considerations on whether objectives are met:

- Are laws and regulations adhered to when spending public funds?
- Are legal restrictions adhered to?

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- Has management created, maintained, and made available to its staff a departmental policy and procedures manual?
- Does management and staff consistently comply with internal policies and procedures?
- Are present internal controls sufficient to comply with State requirements?
- Are there periodic reconciliations and subsequent approvals?
- Are unreconciled financial transactions researched and corrected in a reasonable period of time?
- Are measures taken to limit spending?

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OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

The audit objective was to determine whether the Development Services department complied with requirements of Senate Bill 1 by establishing and maintaining effective internal controls over the process for expending SB1 funds.

Department management is responsible for establishing and maintaining a system of internal controls to adequately comply with approved policies and procedures. The objectives of an internal control system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or theft, and that transactions are executed in accordance with management's authorization and are recorded properly.

IA conducted interviews with management and staff, processes were evaluated, and vendor payments were identified in order to perform substantive tests of records.

Scope

The 2018-19 expenditure test population data was obtained from the County's financial system within the Road Department (#3100) of the Road Fund Administration fund (#0003). At the time of our fieldwork, SB1 revenues and expenditures were not specifically identifiable within the accounting system. As such, and because all fund 0003 expenditures (including SB1 expenditures) are paid according to the same accounts payable process, IA selected from all expenditures in Fund 0003 under department 3100.

We used judgmental sampling to select transactions for testing. For 2018-19, SB1 expenditures of \$423,967 were reported to the State. We noted approximately 80 transactions in connection with SB1; of which 21 transactions totaling \$57,830 were selected for testing.

Due to inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of a system into future periods is subject to the risk that procedures may become inadequate because of changes in conditions or the degree of compliance with procedures may deteriorate.

Methodology

The purpose of the audit report is to furnish management with independent and objective analyses, recommendations, and information concerning activities reviewed. The audit report is a tool to help management discern and implement specific improvements. The audit report is not an appraisal or rating of management.

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Although due professional care in the audit was exercised, this should not be construed to mean that all errors, irregularities or noncompliance were found. The deterrence of fraud is the responsibility of management. Audit procedures alone, even when carried out with professional care, do not guarantee that fraud will be detected. Specific areas for improvement are addressed in the following section.

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AUDIT RESULTS, RECOMMENDATIONS and MANANAGEMENT RESPONSES

Finding A: SB1 Funds Were Not Clearly Separated in the Accounting System.

Condition

SB1 funds are recorded in the Road Fund 0003. In our audit, we found that SB1 fund revenues and expenditures of those funds were commingled with other revenues and expenditures of the other Road Fund activities in the financial system. A governmental entity has a legal responsibility on compliance with how funds are expended. Part of meeting this requirement is to ensure revenues and expenditures from specific funding sources are separately recorded and tracked within the accounting system. However, the department did not set up a new program for SB1 activities and a related restricted fund balance account to capture any unspent revenues received.

Effect

When SB1 revenues and expenditures are not easily identifiable and tracked separately within the accounting system, it can lead to unreliable and inaccurate financial reporting within the Road Fund and to the State. Additionally, the risk of inaccurate claim reimbursements submitted to the State is increased.

Cause

According to DS, the State did not clearly state the requirements. Later on, the State defined guidance for such funds.

Criteria

Best practices include an accounting structure that facilitates separate recording and tracking of expenditures related to specific revenue streams. Fund 0003 is used for many road related activities that include revenues and related expenditures for specific purposes, such as SB1 funded projects. One of the techniques to accomplish this requirement is to employ of a program, which is a separate income statement. A new program number would separate the restricted SB1 funds. By doing so, the financial system would provide more meaningful reports and track fund balances.

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Recommendations

DS management suggested 3 options:

- Assign a project ledger
- Create a new Program under budget unit 3-100
- Create a new budget unit under Fund 0003

The creation of a project ledger or new budget unit would not be necessary to facilitate the necessary separation within the system. As such, IA recommends the following:

1. Create a new program number instead of a new department to track SB1 revenues and expenditures. This would facilitate easy identification and segregation of SB1 revenues and expenditures within the accounting system. Use of the program number will also streamline reconciliation of and reporting on SB1 activities. County standard operating practices include use of program numbers for this level and type of tracking.
2. Create a separate restricted fund balance account to comply with Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Since SB1 funding is anticipated over a multi-year period, and all revenues are not always expended in the fiscal year received, a new restricted fund balance account should be created to track unexpended SB1 funds. DS should submit a reconciliation of SB1 revenues and expenditures along with any necessary adjusting entries to the A-C department to ensure the restricted fund balance account is properly stated as of fiscal year-end.
3. DS management investigate and determine the cause of the lack of segregation of SB1 revenues and expenditures within the accounting system and develop and implement procedures to determine if segregation is necessary.

Management Response

Management agrees with this finding. Original direction from the State on separation of SB1 funding was not clearly defined. DS did originally request of the AC, and received, a new revenue account (45134 – St HUTA SB1 Rd Mnt/Rehab Act) for tracking the revenue. Additionally, DS used project numbers within the Road’s Cost Accounting Management system (CAMs) to track the expenditures for the State required report, the Annual Road Report and the Road Fund Audit.

DS did not originally set up separate SB1 expenditure tracking in the County financial system. As the State reporting became further defined, DS staff started having conversations regarding further segregation of this funding stream. Options discussed within our department were a county project ledger, a new program within budget unit 3100, or possibly a new budget unit within Fund 0003. As these discussions were taking place, this Internal Audit process started, so DS requested of the Internal Auditor a recommendation from the three (3) available options. The recommendation came back to set

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up a new program within budget unit 3100 and to have that program close to a new dedicated fund balance.

DS staff made this request to the AC's office and the new program (46 – RD SB1 RMRA) and the new fund balance equity account (31190-Rest Road SB1 RMRA) were created and DS was notified of such on November 1, 2019. Since this date, DS has accounted for SB1 expenditures and revenues in the new program 46. Additionally, DS has submitted journals to move all previous FY 2019-20 expenditures and revenues to program 46, and a journal to allocate the June 30, 2019 SB1 balance to the new equity account.

Responsible Manager: Radell Sharrock, Administration & Finance Manager

Implementation Date: Final JE to set up account 31190-Rest Road SB1 RMRA submitted to AC on 5/18/20

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Finding B: Process to Purchase Low-Cost Goods Could be Streamlined

Condition

In our audit, we noted that inefficiency exists in the DS process for the purchase of infrequent and low-cost goods. For purchase of these goods, DS uses a Lowe's credit card for non-SB1 transactions. The department submits a separate claim for a warrant to be issued for each individual purchase made rather than one claim to pay the entire month-end statement balance.

According to DS, the Lowe's credit card is used once or twice per month. However, it is likely the volume of future transactions will increase as both non-SB1 projects and expenditures increase.

A-C suggested DS to reach out to Lowe's to explore the possibilities of extending the due date. However, DS did not do so because of the belief that a big company would not consider the accommodation.

Effect

Submission of a claim for every purchase made is inefficient regardless of the number of transactions. This inefficiency causes increased County cost to both the DS and AC departments since multiple claims must be processed and paid as opposed to one claim paid for all of the month's purchases.

Cause

Per DS, the normal billing cycle for the credit card is at the end of the month with the due date the 10th of the following month. To meet this short due date, and avoid finance charges, late fees, or a potential increase in the percentage rate, DS submits a claim for each purchase made.

Criteria

The Government Finance Officers Association (GFOA) recommends use of procurement cards (pcards) as a best practice for credit card purchases. Although not yet fully implemented, the A-C department is in the process of establishing County use of the State pcard program. There are many potential benefits of using pcards including: decentralized procurement function, more flexibility in small dollar amount purchases, lower turnaround time for payment process, less paperwork, the ability to set dollar limits on pcards issued, and the ability to restrict purchases from certain vendors.

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Recommendation

IA recommends that DS contact the vendor to request an extension of the due date to allow DS sufficient time to reconcile their month-end statement and submit a claim to AP for processing a single payment for the entire statement.

As mentioned above, the A-C department is in the process of establishing County use of the State pcard program. Once established, we recommend closure of the Lowe's credit card account and begin use of a pcard. This will streamline the process for acquisition of supplies and recurring purchases of low-cost goods; like those purchased at Lowe's.

By utilizing a pcard, purchases would not be restricted to a certain store and can also be used online. There would be one payment per month for the department regardless of the number of pcards issued to that department, resulting in expedited payments and a simplified process. Although there will be certain limitations on purchases with a pcard beyond those typically placed on personal credit cards, the A-C does not anticipate these to be a hindrance to the department. With proper compliance, this could ultimately translate to less risk to the County, streamline processes, set controls to ensure the appropriateness of expending County funds, and promote enhanced accountability and transparency in the conduct of County business.

Management Response

Management agrees with this finding and is exploring the Department use of the Cal Card (p-card) system as it is rolled out by the AC's office. On March 26, 2020 the Director of Development Services re-submitted his Procurement Card (p-card) application and on May 6, 2020, he attended the necessary p-card training. As of 5/18/20, he was notified that his pcard is at General Services. DS will have further discussions regarding additional staff within the department having p-cards issued for their use and to better streamline processes and procedures.

Responsible Manager: Neal Hay, Director and Radell Sharrock, Administration & Finance Manager
Implementation Date: In progress

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Finding C: Reconciliation of SB1 Projects Could be Performed More Timely

Background

The accounting for projects is housed in the County's financial system. In addition, a stand-alone system, Cost Accounting Management System (CAMS), is also utilized to track expenditures for capital projects. Lastly, year-to-date billings by contractors are tracked in Excel spreadsheets. The review process starts with the acceptance and approval by the engineering division of the contractor's work. The progress billing is then sent to the DS fiscal division where the balances in the financial system, Excel worksheet, and CAMS are visually reconciled.

Condition

During our audit, we found that vendor payments for SB1 funded projects were not reconciled on a consistent basis and could be done more timely. According to staff, the amounts in the financial system, CAMS, and Excel tie in most cases. Reconciliations are performed as each contractor progress billing is submitted. However, if the amounts do not tie, the reconciliation is usually performed on a monthly basis. During busy periods, the reconciliation is postponed to a quarterly basis. If there is a variance, an adjusting journal entry is booked. In addition, reconciliations are not documented and maintained and according to staff, are visual in nature. As such, there is no evidence that reconciliations were actually performed, nor is there any documented record of identified variances or causes and resolutions of those variances.

Effect

Absent timely reconciliations, there is increased risk that reporting deadlines to the State could be missed, which could result in potential general consequences for loss of future funding, fines and penalties, and/or repayment of previously expended funds. Monthly reconciliations could be even more helpful as they could facilitate preparation of the annual Road Maintenance Rehabilitation Account (RMRA) reporting. The annual mandatory reporting for the RMRA is due to the State by October 1.

Cause

The encumbrance tracking spreadsheets we examined were for Bender Rosenthal, Inc and Psomas, Inc. There were no checkmarks or a column on the spreadsheet noting that any reconciliation was performed. Upon request from IA on a reason for the lack of reconciliations, DS provided a spreadsheet for another vendor, Caltrans. For this vendor, there was a column in the encumbrance tracking worksheet indicating reconciliation.

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Criteria

Reconciliations are an important part of monitoring activities. It provides information on whether activities performed are being reviewed and if those activities were performed in accordance with established criteria.

The following is an excerpt from the Government Accountability Office's *Standards for Internal Control in the Federal Government (Green Book)*, on Principle 16- Perform Monitoring Activities:

16.05 Management performs ongoing monitoring of the design and operating effectiveness of the internal control system as part of the normal course of operations. Ongoing monitoring includes regular management and supervisory activities, comparisons, reconciliations, and other routine actions.

Additionally, best practices indicate that account reconciliations be completed timely, are properly documented, and approved by management.

Recommendation

4. IA recommends DS perform monthly or quarterly reconciliation between the financial system, CAMS, and Excel spreadsheets tracking for contractors and develop procedures for the preparation and documentation of the reconciliations.

Management Response

DS does perform reconciliations on a monthly or quarterly basis. We recognize that it makes our jobs much easier and more efficient to keep reconciliations current. Management will add to the Contract Procedure document to create for printing of documents reviewed for reconciliation purposes, sign-off of reconciliation by staff performing the reconciliation as well as review and sign-off by the Administration & Finance Manager. Additionally, DS will create an electronic depository for storing the fully reviewed and signed-off reconciliations.

Responsible Manager: Radell Sharrock, Administration & Finance Manager

Implementation Date: Will work to have updated Contract Procedure document by end of FY, so we can implement the new process in FY 2020-21.

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5. Reconciliations were not reviewed by management. IA recommends that reconciliations be reviewed, approved, and signed off by the Administration & Finance Manager. Evidence of the review and approval should be documented by signature or initials; and dated by the approver.

Management Response

Management will add a step to the Contract Procedure document that the Administration & Finance Manager reviews and documents by sign-off of the contract reconciliation process reconciling the Financial system, CAMs, and Excel.

Responsible Manager: Radell Sharrock, Administration & Finance Manager

Implementation Date: Will work to have updated Contract Procedure document by end of FY, so we can implement the new process in FY 2020-21.

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Finding D: Contract Management Processes Could be Improved

Background

DS contracts with vendors for a variety of reasons. Contracting with outside entities may be necessary to acquire short-term services, obtain an independent opinion, or acquire specialized services. The engineering division is responsible for preparing the contracts and amendments, which are reviewed by the DS Administration & Finance Manager provided there is a fiscal impact.

A consultant sometimes will use additional companies, which the County considers to be subconsultants. The latter are considered to have special skills, experience, and competence in a specific part of the work being performed. Subconsultants are usually identified in the initial agreement or change orders.

Teichert and Son, Inc. is a supplier of materials for road maintenance projects. The Master Purchase Order (MPO) we reviewed was the Development Services MPO 190002 dated 2/11/19 effective through 6/30/19. The materials purchased using the MPO were for both SB1 and non-SB1 related projects. The terms and conditions stated the contractor must reference the County's PO number on all invoices and packing slips. However, the vendor did not list the PO number on most of the manifest and invoices. DS management is aware of this and will work with the County purchasing department and/or the vendor on compliance with County requirements. Additionally, we noted a material cost was \$63 per ton but the County was charged \$70 per ton. However, subsequent to making payment, DS staff caught the vendor's mistake and requested a credit memo. Lastly, we noted the vendor also billed incorrect amounts in other instances, but DS staff rejected the invoices and requested the vendor to bill at the correct rates.

We reviewed 29 transactions paid under MPO 190002. We reviewed per ton charges billed in accordance with the purchase order, environmental fee per load as required by law, sales tax calculations, signature approval on invoices, and approval of claim forms and found that all 29 transactions reviewed were processed according to criteria except for referencing the PO number on invoices and manifest. Teichert and Son, Inc. did not consistently reference the County's MPO number on all invoices and manifest. The vendor did not reference the County's correct PO number, "MPO190002", on the corrected invoice. Based on our audit, we determined that internal controls over vendor payments for the purchase of materials was adequate. However, we did identify aspects that could be improved.

Condition

One of the contracts selected for testing was with Bender Rosenthal Inc., which was effective from 12/5/2017 through 5/31/2019. In our review we found the contract and its two amendments did not include a compensation schedule or billing rates. We inquired of DS staff about the missing rate sheet. DS staff provided us a sheet obtained from the consultant on Friday, October 18, 2019. Since the rate sheet was not provided at the time the contract was signed, we could not determine the accuracy and validity of the rates. Further, in our observation, the consultant hourly rate sheet was ambiguous. It was unclear whether the sheet provided rates for only calendar year 2017 or for the duration of the contract. Furthermore, whether this rate sheet existed at the outset of the contract or put together in response to the DS request on 10/18/19 is unknown.

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Although we question the validity of the rate sheet provided by the consultant, we compared these rates with the actual rates billed. We found the rates billed in the progress payments were the same throughout the contract except for the position of Senior Acquisition Agent. The work performed for this position was billed at \$160/hour but the 2017 rate sheet showed \$140/hour. There were 13 progress billings for the contract. Progress billings 8 through 13 were billed at \$160/hour for said position. Resulting in a potential overpayment for 58.75 hours for a total of \$1,175; approximately 5% of the total payments for this contract.

Effect

The absence of a compensation schedule or stated billing rates in an executed contract is an area of risk and ambiguity that could lead to increased costs. Disagreements between the contracted parties can arise which results in inefficient use of staff time and incorrect amounts being charged to and potentially paid by the County as noted above.

Cause

We found that DS management has not established contract management procedures whereby:

- billing rates are to be included in executed contracts, and
- invoices and packing slips/manifests must reference a valid PO number before payments are made, and
- hourly charges for contractors are verified before payment is made.

Criteria

County agreements should include a rate schedule for consultant hourly rates. If applicable, subconsultant multiplier should also be included. Best practices suggest that billing rates should be negotiated first and included in contracts.

Ultimately, the County is responsible for the accountability and transparency of spending taxpayer dollars efficiently and effectively. The County is responsible for safeguarding its assets and to develop policies and procedures that provide guidance and prescribe internal controls that aid in obtaining objectives.

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Recommendations

6. DS should ensure the following:

- a) Negotiate hourly billing rates by position.
- b) Establish hourly billing rates by project or the fiscal year prior to the signing of contracts.
- c) Include the billing rates in the executed contract.
- d) Communicate to vendors the importance of observing Sutter County Purchasing Policies.

Management Response

Management disagrees with this finding. DS contracts are lump sum, not to exceed, therefore we monitor at the overall expenditure level, not the hourly rate level. The mechanism that the vendor uses for the backup of their invoices, is their process, not something that DS oversees or monitors. Of the three (3) contracts that DS has had with BRI in the past, only one fully expended the not-to-exceed amount. The other two contracts expended less than the not-to-exceed and were therefore paid out without fully expending the contract. DS Administration and Finance staff have, and will continue to, work with the Road Superintendent and the vendors on MPO's to make sure the PO number is correctly identified on all required documentation per the MPO specifications.

Responsible Manager: Neal Hay, Director and Radell Sharrock, Administration & Finance Manager
Implementation Date: N/A

AC rebuttal:

A contracted not-to-exceed maximum cost is generally comprised of two components; 1) the number of units (e.g. vendor hours), and 2) a rate (e.g. a cost charged per hour). Best practices for contract management indicate that contracts should include both components. By including these components, it would allow DS to more effectively review the correctness and reasonableness of amounts billed; thereby reducing the potential for overcharges.

When a contract includes hourly rates, there is greater risk to County monies when a fully expended contract falls below the maximum rather than above. When the maximum has not been met, the number of hours and hourly rate charged determines the amount billed; thereby having a direct fiscal impact to the County. However, once the maximum has been met, the number of hours or hourly rates billed are irrelevant regarding billing since no further amounts must be paid by the County.

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7. Development Services should verify that standard operating procedures for contract monitoring are being followed by reviewing all existing open contracts and amendments to ensure pertinent information such as fee schedules, consultant hourly rates by position, subconsultant multiplier/markup, and other compensation schedules are current and readily available. By having crucial financial compensation information included in the contract, the department could verify whether progress payment billings are accurate and in accordance to contract terms.

If there are on-going (unexpired) contracts that do not have hourly consultant rates, the department should consider whether it is feasible to negotiate rates. DS may need to consult with County Counsel to explore the potential of amending existing contracts to include billing rates.

Management Response

See response to #6.

Lump sum not-to-exceed contracts are monitored at the percent of work complete and the overall expenditure level. DS continually reviews contract terms and contract dollar amounts, making sure work is performed within the contract effective to and from dates and that the overall contract amount is not exceeded. Amendments and extensions are processed, when needed, in accordance with County policy. The standard consultant agreements include an exhibit for the consultant's hourly rate should the consultant have to testify as an expert witness on the County's behalf. Since the Department manages several consultant agreements that span multiple fiscal years, the consultant may submit an invoice that references a different hourly rate, but the Department does not increase the contract amount, unless there is an agreed change in scope of work.

Responsible Manager: Neal Hay, Director and Radell Sharrock, Administration & Finance Manager
Implementation Date: N/A

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8. Update the Administration and Finance Desk Procedure for Contracts manual to include the verification of consultant and/or subconsultant financial compensation and ensure billing rates are correct and included in the contract.

Management Response

See responses to #6 and #7.

Responsible Manager: Neal Hay, Director and Radell Sharrock, Administration & Finance Manager
Implementation Date: N/A

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ACKNOWLEDGEMENTS

Internal Audit would like to thank the Development Services Department management and staff for their cooperation and time throughout this audit.

A handwritten signature in blue ink, appearing to read "Nathan Black", written over a horizontal line.

Nathan M. Black, CPA
Auditor-Controller

A handwritten signature in blue ink, appearing to read "Jackie Kong", written over a horizontal line.

Jackie Kong
Senior Internal Auditor

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DEFINITIONS

Appropriation – The act of setting apart funds authorized for spending, in the Adopted Budget document, by a governing body for a particular usage.

Encumbrance – An encumbrance is a commitment of a future expenditure earmarked for a purpose that reduces the amount of budgetary authority available for general spending. At the end of the fiscal year, encumbered appropriations are carried forward and become part of the following year's budget while appropriations that have not been encumbered lapse unless a budget amendment is sent to the Board of Supervisors for restoration.

Fund – A fund is segregates money or other resources for the purpose of carrying on a specific activity or attaining certain objectives in accordance with specific regulations, restrictions, or limitations, constituting an independent fiscal and accounting entity. Each fund is a self-balancing set of accounts.

Internal Control – Processes and procedures implemented that safeguard the County's assets from loss, theft, or misuse, and allow the compilation of adequate accounting data for the purpose of financial statements preparation. Internal controls are designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed its likely benefits and that the evaluation of costs and benefits is subject to management estimates and judgments. Management is responsible for establishing and maintaining internal controls.

Restricted fund balance – Resources that are constitutionally, legislatively, or otherwise externally limited as to use. The external body for SB1 funding is the State of California.