

Sonoma County

Auditor-Controller-Treasurer-Tax Collector

Internal Audit Report

**Contract Compliance Audit and
Follow-Up Review of Sonoma County
Permit and Resource Management Department
Sea Ranch, Zone 2 (County Services Area 41)**

For the Period: July 1, 2014 through June 30, 2015

Engagement No: 3450
Report Date: November 7, 2016



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Auditor-Controller-Treasurer-Tax Collector

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Executive Summary

The Sonoma County Permit and Resource Management Department (PRMD) oversees the agreement (Operating Agreement) with The Sea Ranch Association (TSRA) for the operation, maintenance, and administration of the on-site wastewater disposal monitoring program. The purpose of the activities required to be performed by PRMD and TSRA under the Operating Agreement is to reduce the overall risk of ground water contamination in the Sea Ranch On-Site Wastewater Disposal Zone approved by the County Board of Supervisors.

The objectives of this audit are to 1) review and evaluate PRMD's internal controls over compliance with the Operating Agreement, 2) follow up on prior audit recommendation and 3) determine if invoices submitted by TSRA for work done under the Operating Agreement are adequately supported.

We noted that:

- PRMD has an adequate system of controls to ensure compliance with the terms of the Operating Agreement
- PRMD has not, as of August 2016, reviewed the Operating Agreement executed on July 13, 1989, to ensure that all changes in laws and other operating environment factors since then are properly reflected in the agreement's terms and conditions. The target completion date is January 01, 2017.
- PRMD has performed reviews of TSRA activities as required under the Operating Agreement, including reviews of TSRA's annual and monthly financial reports.
- TSRA's records adequately support its charges to the County as required by the Operating Agreement.
- PRMD consulted with Risk Management on the insurance policy coverage. Insurance coverage will be updated with new limits when the Operating Agreement is updated by January 01, 2017.

Introduction, Background, and Objectives

Introduction

According to the Environmental Protection Agency (EPA), the performance of onsite wastewater treatment systems is a national issue of great concern. Improperly managed systems pose a threat to public health and to the quality of County water resources. The *National Water Quality Inventory Report to Congress* cites septic systems as the second most frequent source of groundwater contamination. In 1987 the Sonoma County Board of Supervisors approved the formation of the Sea Ranch On-Site Wastewater Disposal Zone, in an effort to protect public health and the area's coastal meadows and waterways.

Under the Operating Agreement, TSRA is required to perform certain monitoring activities and PRMD is required to ensure those activities are conducted and the results are properly acted upon. TSRA is reimbursed for its cost through special charges against properties located in the Sea Ranch area.

Background

Sea Ranch stretches 10 miles along the Sonoma County coastline. High groundwater, coastal meadows, and terrace soils are some of the conditions which challenge the effective operation of onsite wastewater systems. There are 1,536 active or potential septic treatment systems.

The operating agreement between the County and the Sea Ranch Association is for the onsite wastewater monitoring program. The program includes the following:

1. Setting operating permit requirements and performance standards;
2. Routine inspection requirements;
3. Maintenance contract requirements;
4. Establishment of an enforcement authority;
5. Maintenance of inventory and record-keeping;
6. Surface and groundwater quality monitoring

Supervision and control of the services provided by TSRA remain with the County of Sonoma. At the time of the agreement, wells and septic monitoring was under the Department of Health Services. Currently, PRMD bears this responsibility.

Objectives

The primary objectives of this audit will be to:

- 1) Determine if TSRA and PRMD have adequate systems of internal controls related to the Operating Agreement.
- 2) Determine whether TSRA and PRMD complied with the three recommendations from the review performed in 2014.
- 3) Determine whether TSRA's records adequately support the monthly invoices submitted to PRMD.

Scope

Scope

The scope of our work included but was not limited to the following:

- A preliminary survey to update our knowledge of the operating environment; identify changes in laws and regulations, systems, personnel and organization structure.
- A risk analysis to identify significant risks of non-compliance with policies, procedures or laws, loss or misuse of assets and inefficiencies in processes.
- A review and evaluation of internal controls designed to ensure compliance with the above requirements and to adequately reduce the risks identified.

Methodology, Prior Findings, Recommendations and Current Status

1) Objective 1 – Adequate controls

We obtained an understanding of the system of internal controls over the Operating Agreement payments and fiscal and operations monitoring processes and tested key internal controls. We reviewed functions such as payment authorization, financial transaction recordation and reconciliations to determine whether duties were adequately segregated.

We did not note any exceptions. There are adequate policies and procedures in place to provide assurance that the terms of the Operating Agreement are complied with.

2) Objective 2 - Follow-up Review

- **Recommendation 1:** PRMD should review and update the Operating Agreement

Status: In Process

Target Completion Date: April 30, 2017

- **Recommendation 2:** PRMD should develop and execute a plan that satisfies its duties to supervise and control the functions performed by TSRA under the agreement

Status: Implemented

Results:

PRMD obtained monthly monitoring reports from TSRA and a detailed annual report, which document the processes and the results of property inspections by TSRA inspectors, to ensure that inspection requirement terms of the Operating Agreement were met.

- **Recommendation 3:** PRMD should obtain and review the TSRA insurance policy for adequacy of coverage. Risk management and County Counsel should be consulted as necessary. Operating agreement insurance requirements should be updated accordingly.

Status: Partially Implemented

Results:

The County's Risk Management Division has reviewed the insurance policy and has recommended that the liability limit for general and automobile be increased to \$10 million from the current limit of \$1 million. PRMD intends to incorporate this requirement in the revised Operating Agreement expected to be implemented by January 01, 2017.

Target Completion Date: April 30, 2017

3) Objective 3 – Expenditures

We tested a sample of invoices submitted to the County by TSRA for proper support and authorization. We noted no exceptions.

Staff Acknowledgement

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The ACTTC would like to thank James Walsh, PRMD Accountant III for his helpfulness and cooperation in conducting this Follow-Up Review. If you have any further questions regarding this report, please contact Vanessa Thomas at (707) 565-8302.