



Internal Audit Department

O R A N G E C O U N T Y

AUDIT HIGHLIGHT

SEPTEMBER 7, 2012

INTERNAL CONTROL AUDIT: OC PUBLIC WORKS FEE GENERATED REVENUE Audit No. 1022

WHY IS THIS AUDIT IMPORTANT?

During FY 10-11, OCPW generated **\$11.5 million in fee generated revenue from eighty-eight (88) Board-approved, cost-recovery fees** from Licenses, Permits, Franchises, and Charges for Services to the public for providing County services.

OC Public Works (OCPW) provides services related to flood protection, safe roads, community planning & development, facilities operations, regional water quality management, and agricultural commissioner. OCPW charges fees to the public for providing certain services in these areas. OCPW fees are classified into two types: 1) **Cost-recovery fees** that are based on the costs of providing services, including all direct and indirect costs; 2) **Fees set by statute** that are established and governed by various statutes and are not based on OCPW costs.

Our audit evaluated the adequacy of internal controls over OCPW's fee development processes for establishing cost-recovery fees charged to the public that require approval from the Board of Supervisors. We also evaluated compliance with County Accounting Manual Procedures Nos. R-3 – *Revenue Policy, Requirements & Responsibilities*, and B-2 – *Billing Rates and Indirect Costs*, and the impact on fee development from State Proposition 26.

WHAT THE AUDITORS FOUND?

Our audit found internal controls over the administration of OCPW's fee development processes **need improvement** to ensure compliance with departmental and County policies. We also found OCPW has **not** been in full compliance with County Accounting Manual Procedures No. R-3 – *Revenue Policy, Requirements & Responsibilities* and B-2 – *Billing Rates and Indirect Costs* in the areas of frequency of fee reviews and ensuring full cost recovery of fees.

Audit Findings and Control Recommendations

We identified **one (1) Critical Control Weakness** and **nine (9) Significant Control Weaknesses** regarding no formal fee monitoring process; unidentified revenues in the County General Ledger; incomplete fee inventory listings, documentation of management review/approval of fee studies; written policies and procedures over the fee development process, and ensuring compliance with the County Revenue Policy in the areas of frequency of fee reviews and full cost recovery of fees.