

Internal Audit Department

O R A N G E C O U N T Y
6th Largest County in the USA

Internal Control Audit: OC PUBLIC WORKS FEE GENERATED REVENUE

For the Period April 1, 2011
through March 31, 2012

During Fiscal Year 10-11, OC Public Works generated approximately \$11.5 million in fee generated revenue from Board-approved, cost-recovery fees for Licenses, Permits, Franchises, and Charges for Services that are charged to the public for providing County services.

We audited OC Public Works (OCPW) Fee Generated Revenue to evaluate the adequacy of internal controls over fee studies and fee development for establishing cost-recovery fees charged to the public for Licenses, Permits and Franchises and Charges for Services subject to approval from the Board of Supervisors. We also evaluated compliance with County Accounting Manual policies and procedures for preparing and submitting fee proposals; and to determine if the fee development process is efficient and effective.

Our audit found internal controls over the administration of OCPW's fee development processes need improvement to ensure compliance with related County Accounting Manual procedures, and to have an effective fee development process. We identified **one (1) Critical Control Weakness** and **nine (9) Significant Control Weaknesses** to improve controls with regards to fee development processes, policies, procedures and compliance with County policy.

AUDIT No: 1022

REPORT DATE: SEPTEMBER 7, 2012

Director: Dr. Peter Hughes, MBA, CPA, CIA

Deputy Director: Eli Littner, CPA, CIA

Senior Audit Manager: Michael Goodwin, CPA, CIA

Audit Manager: Carol Swe, CPA, CIA

RISK BASED AUDITING

GAO & IIA Peer Review Compliant – 2001, 2004, 2007, 2010



Member of American Institute of Certified Public Accountants Award to Dr. Peter Hughes as 2010 Outstanding CPA of the Year for Local Government

GRC (Government, Risk & Compliance) Group 2010 Award to IAD as MVP in Risk Management



2009 Association of Certified Fraud Examiners' Hubbard Award to Dr. Peter Hughes for the Most Outstanding Article of the Year – Ethics Pays



2008 Association of Local Government Auditors' Bronze Website Award



2005 Institute of Internal Auditors' Award to IAD for Recognition of Commitment to Professional Excellence, Quality, and Outreach



ORANGE COUNTY BOARD OF SUPERVISORS'
Internal Audit Department

GAO & IIA Peer Review Compliant - 2001, 2004, 2007, 2010

Providing Facts and Perspectives Countywide

RISK BASED AUDITING

Dr. Peter Hughes **Ph.D., MBA, CPA, CCEP, CITP, CIA, CFE, CFF, CGMA**
 Director Certified Compliance & Ethics Professional (CCEP)
 Certified Information Technology Professional (CITP)
 Certified Internal Auditor (CIA)
 Certified Fraud Examiner (CFE)
 Certified in Financial Forensics (CFF)
 Chartered Global Management Accountant (CGMA)
 E-mail: peter.hughes@iad.ocgov.com

Eli Littner **CPA, CIA, CFE, CFS, CISA**
 Deputy Director Certified Fraud Specialist (CFS)
 Certified Information Systems Auditor (CISA)

Michael Goodwin **CPA, CIA**
 Senior Audit Manager

Alan Marcum **MBA, CPA, CIA, CFE**
 Senior Audit Manager

Autumn McKinney **CPA, CIA, CISA, CGFM**
 Senior Audit Manager Certified Government Financial Manager (CGFM)

Hall of Finance & Records

12 Civic Center Plaza, Room 232
 Santa Ana, CA 92701

Phone: (714) 834-5475

Fax: (714) 834-2880

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OC Fraud Hotline (714) 834-3608



Transmittal Letter



Audit No. 1022 September 7, 2012

TO: Ignacio Ochoa, Interim Director
OC Public Works

FROM: Dr. Peter Hughes, CPA, Director
Internal Audit Department

SUBJECT: Internal Control Audit: OC Public Works
Fee Generated Revenue

We have completed an Internal Control Audit of OC Public Works Fee Generated Revenue for the period April 1, 2011 through March 31, 2012. We performed this audit in accordance with our *FY 2011-12 Audit Plan and Risk Assessment* approved by the Audit Oversight Committee and the Board of Supervisors. Our final report is attached for your review.

Please note we have a structured and rigorous **Follow-Up Audit** process in response to recommendations and suggestions made by the Audit Oversight Committee (AOC) and the Board of Supervisors (BOS). Our **first Follow-Up Audit** will begin at six months from the official release of the report. A copy of all our Follow-Up Audit reports is provided to the BOS as well as to all those individuals indicated on our standard routing distribution list.

The AOC and BOS expect that audit recommendations will typically be implemented within six months and often sooner for significant and higher risk issues. Our **second Follow-Up Audit** will begin at six months from the release of the first Follow-Up Audit report, by which time **all** audit recommendations are expected to be addressed and implemented. At the request of the AOC, we are to bring to their attention any audit recommendations we find still not implemented or mitigated after the second Follow-Up Audit. The AOC requests that such open issues appear on the agenda at their next scheduled meeting for discussion.

We have attached a **Follow-Up Audit Report Form**. Your agency should complete this template as our audit recommendations are implemented. When we perform our first Follow-Up Audit approximately six months from the date of this report, we will need to obtain the completed document to facilitate our review.

Each month I submit an **Audit Status Report** to the BOS where I detail any critical and significant audit findings released in reports during the prior month and the implementation status of audit recommendations as disclosed by our Follow-Up Audits. Accordingly, the results of this audit will be included in a future status report to the BOS.

As always, the Internal Audit Department is available to partner with your staff so that they can successfully implement or mitigate difficult audit recommendations. Please feel free to call me should you wish to discuss any aspect of our audit report or recommendations. Additionally, we will request your department complete a **Customer Survey** of Audit Services. You will receive the survey shortly after the distribution of our final report.

ATTACHMENTS

Other recipients of this report are listed on the **OC Internal Auditor's Report** on page 8.

Table of Contents



***Internal Control Audit:
OC Public Works Fee Generated Revenue
Audit No. 1022***

For the Period April 1, 2011 through March 31, 2012

Transmittal Letter	i
OC Internal Auditor's Report	
OBJECTIVES	1
RESULTS	1
BACKGROUND	4
SCOPE AND METHODOLOGY	7
SCOPE EXCLUSIONS	7
Detailed Results, Findings, Recommendations and Management Responses	
Finding 1 – No Formalized Fee Study Monitoring Process (Critical Control Weakness)	9
Finding 2 – Undefined/Miscellaneous Revenue (Significant Control Weakness)	10
Finding 3 – Incomplete Fee Inventory Listing (Significant Control Weakness)	11
Finding 4 – Fee Study Review/Approval Not Documented (Significant Control Weakness)	11
Finding 5 – Fee Development Policies and Procedures Need Enhancement (Significant Control Weakness)	12
Finding 6 – Frequency of Fee Studies Not in Compliance With County Policy (Significant Control Weakness)	13
Findings 7- 9 – Adherence to Full Cost Recovery Policy (Significant Control Weakness)	14
Finding 10 – Resource Impact on Fee Development Process (Significant Control Weakness)	17
ATTACHMENT A: Report Item Classifications	18
ATTACHMENT B: OC Public Works Management Responses	19

OC Internal Auditor's Report



Audit No. 1022

September 7, 2012

Audit Highlight

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 based on OCPW's cost of providing services, including all direct and indirect costs; and 2) Fees set by statute established and governed by various statutes and not based on OCPW costs.

We evaluated the adequacy of internal controls over fee studies and fee development for establishing cost-recovery fees charged to the public subject to Board of Supervisor approval.

We found internal controls over the administration of OCPW's fee development processes need improvement to ensure compliance with related County Accounting Procedures, and to have an effective fee development process.

TO: Ignacio Ochoa, Interim Director
OC Public Works

FROM: Dr. Peter Hughes, CPA, Director
Internal Audit Department

SUBJECT: Internal Control Audit: OC Public Works
Fee Generated Revenue

OBJECTIVES

In accordance with our *FY 2011-12 Audit Plan and Risk Assessment* approved by the Audit Oversight Committee and the Board of Supervisors, the Internal Audit Department conducted an Internal Control Audit of OC Public Works (OCPW) Fee Generated Revenue. Our audit included an evaluation of internal controls, testing compliance with OCPW and County policies; and evaluating process efficiencies and effectiveness. Our audit was conducted in conformance with professional standards established by the Institute of Internal Auditors. The objectives of this audit were to:

1. Evaluate the adequacy of internal controls over fee development processes for establishing cost-recovery fees charged to the public for Licenses, Permits and Franchises and Charges for Services subject to Board of Supervisors approval to ensure compliance with departmental and County policies.
2. Evaluate compliance with County Accounting Manual procedures Nos. R-3 – *Revenue Policy, Requirements & Responsibilities*, and B-2 – *Billing Rates and Indirect Costs*, and evaluate the impact on fee development from the recently passed State Proposition 26.
3. Determine if the process is efficient and effective (e.g., no backlogs, duplication of work, manual processes that could be automated).

RESULTS

Objective #1: 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 identified **one (1) Critical Control Weakness** and **four (4) Significant Control Weaknesses** regarding unidentified revenues; no formal fee monitoring process; fee inventory listings, management review/approval of fee studies; and written policies and procedures over the fee development process.

Objective #2: Our audit 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. OCPW has addressed the impact of State Proposition 26 on the fee development process. We identified **four (4) Significant Control Weaknesses** to ensure compliance with the County Accounting Manual Procedures.

OC Internal Auditor's Report



Objective #3: Our audit did not note any instances of duplication of work or processes that could be automated in OCPW's fee development process. However, our audit disclosed issues concerning the administration of the fee development process, and compliance with County Revenue Policy requirements as discussed under Audit Objectives #1 and #2. We identified **one (1) Significant Control Weakness** to evaluate staffing and resources allocated to OCPW Finance for administration of the fee development process.

The following table summarizes our findings and recommendations for this audit. See further discussion in the *Detailed Results, Findings, Recommendations and Management Responses* section of this report. See *Attachment A* for a description of Report Item Classifications.

Finding No.	Finding Classification	Finding	Recommendation	Concurrence by Management?	Page No. in Audit Report
1.	Critical Control Weakness	OCPW Finance does not have a formalized method for tracking and monitoring fee studies.	Develop a fee study monitoring process immediately to ensure adequate monitoring of fee studies.	Concur	9
2.	Significant Control Weakness	OCPW has several revenue line items in the General Ledger with large, unidentified balances totaling over \$12 million .	Take measures to immediately identify General Ledger revenue accounts recorded as Undefined/Miscellaneous.	Concur	10
3.	Significant Control Weakness	FY 11/12 Fee Inventory Listing contained some duplicated fees, some fees were listed in error, and some fees were not included.	Ensure the annual Fee Inventory provided to CEO/Budget is completed accurately.	Concur	11
4.	Significant Control Weakness	The preparation and review/approval of fee studies is not formally documented by the preparer and reviewer.	Document the preparation, review and approval of fee studies.	Concur	11
5.	Significant Control Weakness	Written procedures for fee development are lacking certain information and guidelines important in administering the fee development process.	Enhance written policies and procedures for the fee development process.	Concur	12
6.	Significant Control Weakness	OCPW did not perform annual fee studies or obtain approval to extend them to every three years as allowed by County Accounting Proc. R-3.	Ensure its fee development process is in compliance with County policies and procedures pertaining to frequency of fee studies.	Concur	13
7.	Significant Control Weakness	CWCAP (overhead) allocations and indirect costs were not included on Fee Checklist for the Building & Planning Fee Ordinance Study and La Mirada Sewer Fee Study.	Ensure CWCAP and other indirect costs are included in fee studies for full cost recovery.	Concur	14

OC Internal Auditor's Report



Finding No.	Finding Classification	Finding	Recommendation	Concurrence by Management?	Page No. in Audit Report
8.	Significant Control Weakness	Not all OCPW fees adhere to the County policy requirement for "full cost recovery."	OCPW ensure that if full cost recovery is not feasible, provisions should be approved by CEO in writing and clearly indicated on the Fee Checklist and ASR.	Concur	16
9.	Significant Control Weakness	For the Building and Planning Fee Ordinance Study, the Fee Checklist and supporting documentation submitted was for overall fund costs and revenues, and not by individual fee.	OCPW provide supporting documentation with sufficient detail to identify costs and revenue per fee or service.	Concur	16
10.	Significant Control Weakness	OCPW's administration of the fee development process has been impacted by limited staffing and resources in OCPW Finance.	Conduct an evaluation of the adequacy of staffing and resources allocated to OCPW Finance for administration of the fee development process.	Concur	17



BACKGROUND

OC Public Works' (OCPW) vision is to be "A world class leader of innovative, professional and quality public works services," with a mission statement to: "Ensure quality of service today and quality of life tomorrow." To achieve its vision and mission, OCPW has six core service areas:

1. Flood Protection
2. Safe Roads
3. Community Planning & Development
4. Facilities Operations, including real estate management & land acquisition
5. Regional Water Quality Management
6. Agricultural Commissioner

In the six core service areas, OCPW has five core businesses it provides:

- 1) **OC Engineering** – Services are organized into five sections: *OC Flood, OC Roads, OC Operations and Maintenance, OC Inspection, and OC Survey*. This division is responsible for maintaining public safety through a system of flood control facilities that protects the region from flooding, and a network of roads and bridges that facilitates the safe conveyance of people and goods throughout the County.
- 2) **OC Planning** – Services are organized into five sections: the *Agricultural Commissioner*, who protects the public from invasive pests and ensures that businesses and consumers have accurate weights and measures systems; *OC Community Development, OC Planned Communities* and *OC Communities* who are responsible for building and preserving safe communities; and *OC Watersheds* which collaborates with community partners to ensure the County's compliance with Federal and State environmental regulations.
- 3) **OC Facilities & Real Estate** – Through its three sections, *OC Facilities Operations, OC Corporate Real Estate* and *OC Property Development*, OCPW operates and maintains all County facilities, acquires buildings and land for County use, and facilitates and manages capital projects. The division has also taken the lead in exploring, investing in and implementing green technology solutions for the County's buildings and other infrastructure.
- 4) **Administration** – This division provides the administrative management framework for OCPW, and is organized into five sections: *Finance Services, Human Resources, Information Technology Services, OC Fleet & Procurement Services, and Auditor-Controller Accounting Services*, an out-stationed Satellite Accounting Unit. Within Administration, **Finance Services (OCPW Finance)** is responsible for fee development & revisions for OCPW, with assistance from OCPW Accounting Services. Our audit focused primarily on OCPW Finance's fee development and fee revision processes.
- 5) **Strategic Planning & Legislation** – This is a newly created division that was previously part of Administration, and is responsible for identification and communication of internal and external policies, procedures, and legislation impacting OC Public Works and its business partners.

County's Revenue Account Coding Structure

Our audit included an evaluation of internal controls and processes over fees that are charged to the public for providing County services, and which require Board of Supervisor approval prior to charging the fees in the following revenue accounts. The following amounts represent **all** revenues in these two categories (see Note below).

1. **Licenses, Permits & Franchises.** (Code 0200; Revenue Source Codes 6330 – 6499). Actual revenue received in this category for FY 10-11 was **\$5,887,610**. Includes building and safety construction permit fees, business license fees, road privileges and permit fees. Most of these fees are cost-recovery based fees subject to Board of Supervisors approval.

OC Internal Auditor's Report



2. **Charges for Services.** (Code 0600; Revenue Source Codes 7200 – 7609). Actual revenue received in this category for FY 10-11 was **\$93,509,173**. Includes road and flood, utility billings, planning fees, agricultural fees. Most of these fees are not charged to public.

Note: The combined total of the two fee types for FY 10-11 was about **\$99.4 million**. Our audit population consisted of Board-approved, cost-recovery fees charged to the public, which totaled approximately **\$11.5 million** of the **\$99.4 million** or **12%**.

OCPW Fees

OCPW fees are classified into two types:

1. **OCPW 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 focused on OCPW cost-recovery fees and not on fees set by statutes. OCPW Finance maintains a listing of *Review of County Fees Charged to the Public* and a listing of *Review of County Charges for Services*. These two schedules (collectively referred to as the **Fee Inventory**) were prepared for FY 11-12 per a request by the County Executive Office. OCPW Finance is responsible for fee development and preparing fee studies.

County Fees Charged to the Public includes fees charged to a business or individual for services provided. These generally require Board approval except those fees which are fixed by statute.

County Charges for Services are considered rates for services, and not as fees. Board approval not required. These include direct billings, charges to other govt. entities, cost applied rates to other County departments/agencies, and charges set by the State.

Based on the Fee Inventory prepared by OCPW for FY 11-12, we noted the following **88** cost-recovery fees charged to the public which required Board approval:

Budget Control/Division	Budget Control	No. of Fees per Fee Inventory**	FY 10/11 Revenue
OC Planning	080	14	\$848,199
Agricultural Commissioner	080	10	\$1,334,249
OCPW-County Property Permits	080	1	\$14,986
OCPW-Special Services	080	1	\$85,593
OC Survey	080	3	\$69,436
Building & Safety/General Fund	071	33	\$3,892,065
OC Road	115	11	\$365,209
Survey Monument Preservation	128	1	\$56,860
OC Parking Facilities	137	5	\$4,380,106
OC Flood	400	9	\$467,152
Total		88	\$11,513,855

**Note: Each fee listed on the Fee Inventory could consist of multiple individual fees, grouped by service charge description (e.g., Electrical Permit includes 10 individual fees).



Cost Recovery Policies and Procedures

As authored by Daniel Edds, User Fees – Putting Policies and Structures in Place Now for the Future, *Government Finance Review*, April 2011, “while user fees cannot replace lost revenues, the current economic state of affairs provides a critical opportunity to review and update user fee policies, cost structures, policies, and internal procedural processes. By taking steps now, jurisdictions can be ready to make improvements as soon as economic recovery begins. Setting clear policies and procedures for cost recovery is a way to prepare for anticipated services needs and future growth.”

OCPW Finance has an established Policy & Procedure No. 1.1.106: Fees – Authorizing New or Revising Existing to ensure the fee studies comply with the County Accounting Manual procedures No. R-3: *Revenue Policy, Requirements & Responsibilities*, and Procedure No. B-2: *Billing Rates and Indirect Costs*. OCPW Finance works with OCPW Accounting Services and with OCPW program staff in developing/revising cost recovery fees.

The OCPW Finance Manager is responsible for monitoring actual revenue throughout the year to determine whether existing fees need to be revised. However, we were told that this analysis is very informal. OCPW Finance informed us it lost a revenue fee analyst position due to budget cuts, and has been short-staffed. Also, the OCPW Finance Manager recently transferred to another department near the end of audit fieldwork.

Outsourcing of OC Building and Planning Fee Structure Analysis

In the fall of 2009, OCPW contracted with consulting firm Management Partners Inc. to examine existing building and planning development services fee structure based upon a recommendation by the Office of the Performance Auditor. In March 2010, OCPW adopted a revised fee structure and schedule for building and planning development services, effective May 1, 2010. The approach recommended and eventually adopted by the BOS includes a hybrid fee structure for building permit fees that simplifies fee categories using a fixed or flat fee methodology (average cost), actual cost approach or a valuation based model, where appropriate. Our audit did not include an evaluation of the methodologies used or recommendations for the revised fee structure and schedule made by Management Partners Inc.

In January 2011, Management Partners Inc. was retained to conduct a review of the Building and Safety Schedule (Building Permit Fee Schedule) and the Discretionary Development/Entitlement Fee Table (Planning Permit Fee Schedule) to evaluate the new fee structure, analyze cost of services compared with fees charged, and recommend changes or adjustments as needed. Management Partners agreed with OCPW staff that no changes should be made until at least 12-18 months of data on closed permits can be obtained sometime in 2012. OCPW is in the process of reviewing these fees as part of the annual budget process for submission to the Board in spring of 2013.

Impact of Proposition 26

In November 2010, Proposition 26 was passed by California voters. Proposition 26 requires that certain state and local fees are approved by two-thirds vote. The impact of Proposition 26 expands the definition of a tax which classifies some fees and charges as taxes that the government formerly imposed with a simple majority vote. As a result, more revenue proposals, formerly fees but now taxes, require approval by two-thirds of the Legislature or by local voters. Prior to the passage of Proposition 26, elected officials at the state and local levels could legislate higher revenue proposals by classifying them as fees in order to pass with a simple majority instead of a two-thirds majority required by law for taxes.



SCOPE AND METHODOLOGY

Our audit covered the period April 1, 2011 through March 31, 2012 and included the following:

1. Evaluating internal controls over fee development processes for establishing cost-recovery fees charged to the public for Licenses, Permits and Franchises and Charges for Services submitted for Board approval. We selected a sample of fee studies and related documentation to help in our evaluation of internal controls and compliance.
2. Evaluating 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 the recently passed State Proposition 26.
3. Evaluating the efficiency and effectiveness of the fee development process, such as for backlogs, duplication of work, manual processes that could benefit from automation.

SCOPE EXCLUSIONS

We did not review Charges for Services or Licenses, Permits and Franchises revenue generated from fees set by statutes as those are mandated. In addition, we did not review internal controls over cash receipts over the established fees. Furthermore, we did not determine the reasonableness of methodologies and assumptions used in the development of the fees. Our audit did not include an evaluation of the methodologies used or recommendations made for the revised fee structure and schedule by outside consultant, Management Partners Inc., related to the Planning and Building Safety Fee Ordinance.

Management's Responsibilities for Internal Controls

In accordance with the Auditor-Controller's County Accounting Manual section S-2 *Internal Control Systems*, "All County departments/agencies shall maintain effective internal control systems as an integral part of their management practices. This is because management has primary responsibility for establishing and maintaining the internal control system. All levels of management must be involved in assessing and strengthening internal controls." Control systems shall be continuously evaluated by Management and weaknesses, when detected, must be promptly corrected. The criteria for evaluating an entity's internal control structure is the Committee of Sponsoring Organizations (COSO) control framework. Our Internal Control Audit enhances and complements, but does not substitute for OCPW's continuing emphasis on control activities and self-assessment of control risks.

Inherent Limitations in Any System of Internal Control

Because of inherent limitations in any system of internal controls, errors or irregularities may nevertheless occur and not be detected. Specific examples of limitations include, but are not limited to, resource constraints, unintentional errors, management override, circumvention by collusion, and poor judgment. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or the degree of compliance with the procedures may deteriorate. Accordingly, our audit would not necessarily disclose all weaknesses in OCPW's operating procedures, accounting practices, and compliance with County policy.

Acknowledgment

We appreciate the courtesy extended to us by OC Public Works during our audit. If we can be of further assistance, please contact me directly or Eli Littner, Deputy Director at 834-5899 or Michael Goodwin, Senior Audit Manager at 834-6066.



Attachments

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

Members, Board of Supervisors
Members, Audit Oversight Committee
Bob Franz, Interim County Executive Officer
Mary Fitzgerald, Director, OCPW Administrative Services
Randi Dunlap, Manager, OCPW Administrative Services
Larry Stansifer, Manager, OCPW Administration
Howard Thomas, Manager, OCPW Accounting Services
Jim Martin, Budget Analyst, OCPW Finance
Foreperson, Grand Jury
Susan Novak, Clerk of the Board of Supervisors



Audit Objective #1: Evaluate the adequacy of internal controls over fee development processes for establishing cost-recovery fees charged to the public for Licenses, Permits and Franchises and Charges for Services subject to Board of Supervisor approval to ensure compliance with departmental and County policies.

AUDIT STEPS AND RESULTS

To accomplish this objective, we audited internal controls over administration and governance of the OCPW fee development and fee study process. We performed the following audit steps:

- ✓ Held meetings and conducted walkthroughs of the fee development process and controls with the OCPW Finance Manager responsible for departmental fee development.
- ✓ Evaluated the adequacy of OCPW fee development written policies and procedures.
- ✓ Evaluated the accuracy and completeness of OCPW's Fee Inventory Listings provided to the CEO/Budget Office.

CONCLUSION

We found that improvements in controls and processes are needed over the administration and governance of the fee development process to ensure compliance with County policy requirements. We noted the fee development process has been significantly impacted by limited staffing resources and by other departmental priorities. We identified **one (1) Critical Control Weakness** and **four (4) Significant Control Weaknesses** where improvements are needed, as discussed below. See Attachment A for a description of Report Item Classifications.

Finding 1 – No Formalized Fee Study Monitoring Process

Summary

OCPW Finance does not have a formalized method for tracking and monitoring fee studies to ensure they are performed timely. **(Critical Control Weakness)**

Details

OCPW does not have a formalized method for tracking and monitoring fee studies to ensure they are performed timely. Because there are no formalized procedures for monitoring and tracking fee studies, the OCPW Finance Manager used the Fee Inventory Listing, prepared annually during the budget process, as a way of monitoring fee studies. We were informed the monitoring was informal and was not documented. In addition, our audit noted the list is not complete; therefore, it should not be relied on for monitoring. See related **Finding No. 3**.

County Accounting Manual Policy, *R-3: Revenue Policy, Requirements & Responsibilities*, Section 2 ~ states:

“All cost recovery revenue rates shall be updated at least once each year to reflect current costs. When the cost associated with making this annual determination appears to be excessive, with the approval of CEO and the Auditor-Controller, a complete update shall be made no later than every third year.”

OCPW Finance cited a lack of staffing and adequate resources to enable them to have a formalized fee study tracking process. As a result, fee studies may not be performed timely in compliance with the above policy and to ensure full cost recovery.

Recommendation No. 1

OCPW immediately develop a fee study monitoring process to ensure adequate tracking of fee studies due for review.



OC Public Works Management Response:

Concur. This deficiency has resulted from a lack of resources. However, OC Public Works will use Health Care Agency's Fee Study Procedures as a starting point to develop expanded policies and procedures that are appropriate to OC Public Works' various fee types and structures. Additionally, OC Public Works is working with the OCPW/Information Technology section to develop a tracking application and automated workflow that will insure that all preparation, review and approval of the various fee studies are performed promptly and are appropriately documented.

It should also be noted, however, that without additional resources, it will be challenging for OC Public Works to get the fee studies current within a reasonable amount of time. In August 2012, CEO approved the unfreeze of one fee analyst position for OCPW Finance Services, which will be helpful in updating fee studies in a timely manner.

Finding 2 – Undefined/Miscellaneous Revenue

Summary

In determining the audit population of OCPW fees, we noted OCPW has several General Ledger revenue line items with large balances totaling over **\$12 million** that are recorded as "Undefined/Misc." **(Significant Control Weakness)**

Details

Our audit noted several revenue line items with large, unidentified balances in the County General Ledger at the fiscal year ending June 30, 2011. Specifically, the category for 'Licenses, Permits, and Franchises' had five (5) items totaling \$337,131 (ranging from \$14,986 to \$173,726) and 'Charges for Services' had ten (10) items totaling \$11,700,053, ranging from \$-33,377 to \$4,237,552.

OCPW Finance staff performed additional research to identify the source of these revenues for the purpose of quantifying our audit population. Based on review of transactions in these accounts, these transactions were not one-time, but appeared to be recurring and significant amounts.

Revenue deposits should be accurately coded and recorded in accounts that clearly indicate the nature or source of the revenue, allowing for effective monitoring and management of revenue sources. Only revenue deposits that are infrequent or truly insignificant should be recorded as 'Undefined/Misc'.

Recommendation No. 2

OCPW immediately identify revenue accounts (department revenue source codes) currently recorded as "Undefined/Miscellaneous" to clearly indicate the nature and source of the revenue deposits.

OC Public Works Management Response:

Concur. While there is no County or Accounting policy that mandates the use of specific Department Revenue Source Codes, we agree that doing so allows for clearer identity of the nature or source of the revenue.

In response to this finding, OC Public Works is working with OC Public Works Accounting in developing a process to identify and assign a separate Department Revenue Source Code for all unidentified deposits before they are input. By doing so, OC Public Works will limit the use of the default codes and have a more accurate record of the different types of revenue received.



Finding 3 – Incomplete Fee Inventory Listing

Summary

OCPW's Fee Inventory Listing prepared for FY 11/12 during the annual budget process and submitted to the CEO/Budget Office contained some duplicated fees, some fees were listed in error, and some fees were not included. **(Significant Control Weakness)**

Details

As part of the annual budget process, CEO/Budget requires all departments/agencies to complete an annual *Review of County Fees Charged to the Public (Fee Inventory)*. Our audit of OCPW's FY 11/12 Fee Inventory found it was not complete and accurate. Specifically, four (4) fees were duplicated on the list; fifteen (15) fees were listed in error and should be deleted; and seventeen (17) fees were not included and need to be added.

OCPW Finance would compile the Fee Inventory Listing at the end of budget season and said it was put together quickly. As a result of our finding, the OCPW Finance Manager and staff began researching the reconciling items to clean up the Fee Inventory. Without a complete and accurate Fee Inventory Listing, OCPW and CEO/Budget will not be able to provide oversight of all County fees/charges for services to the public.

Recommendation No. 3

OCPW ensure their annual Fee Inventory Listing provided to CEO/Budget is accurate and complete.

OC Public Works Management Response:

Concur. The Fee Inventory was updated and corrected after the 2012 submission. The updating of the annual Fee Inventory has been incorporated into the annual OC Public Works Budget calendar in order to allow enough time for a comprehensive review prior to submission to CEO/Budget. The Inventory will also be reviewed throughout the year as Fee Studies are initiated and adopted.

Finding 4 – Fee Study Review/Approval Not Documented

Summary

The preparation and review/approval of fee studies is not formally documented by the preparer and reviewer in accordance with OCPW procedures and good internal control practices. In instances when there was documentation, the documents evidencing the preparation and approval were not consistently retained. **(Significant Control Weakness)**

Details

OCPW has a written policy and procedure, Policy #1.6.104 – *Fees-Authorizing New or Revising Existing*. It states that "Preparation and review/approval of fee studies should be documented and retained as evidence that a review was performed by the appropriate individuals and that the fee study was approved by the appropriate individuals in compliance with OCPW policy and best practice." By not adhering to this practice, fee studies may not be reviewed and/or approved in compliance with OCPW policy and best practices.

Recommendation No. 4

OCPW document the preparation, review and approval of fee studies and ensure the documentation is retained as evidence of compliance with OCPW policy.



OC Public Works Management Response:

Concur. It should be noted that the few fee studies that were presented to the Board of Supervisors in the last few years were carefully reviewed by OC Public Works' Management, CEO/Budget and the Auditor-Controller. The deficiency noted was in the lack of documentation. OC Public Works is working with the OCPW/Information Technology section to develop a tracking application that includes an automated workflow that will insure that all preparation, review and approval of the various fee studies are appropriately documented.

Finding 5 – Fee Development Policies and Procedures Need Enhancement

Summary

OCPW's written procedures for fee development and fee studies are lacking certain information and guidelines important in administering the fee development process.

(Significant Control Weakness)

Details

OCPW Finance maintains written fee development procedures. Our audit of the procedures found they should be enhanced to include guidelines for administering, monitoring and conducting fee development. We provided the OCPW Finance Manager a copy of the Health Care Agency fee development procedures as a model to use for OCPW.

The Finance Manager started revising and enhancing OCPW's fee development procedures during our fieldwork; however, further enhancements should be made to include specific steps for:

- Tracking & monitoring of all fee studies for revisions
- Specific steps in conducting the fee study, including:
 - Details for calculating total costs
 - Details & methods for calculating fee for full cost recovery
- Specific steps in preparing the Fee Checklist, including:
 - Requirements for determining and disclosing full cost recovery (i.e., indirect costs included, justification for less than full cost recovery)

Documented fee development policies and procedures should ensure revenues do not exceed the estimated amount required to provide those services and fees shall include provisions for full County cost recovery wherever possible.

The development and use of policy and procedures are an integral part of a successful quality assurance system as it provides personnel with the information to perform their duties properly, facilitates consistency in the quality and integrity of an end-result, and ensures compliance with governing documentation. As such, it is important this process be documented to provide guidance for staff responsible for fee development.

Recommendation No. 5

OCPW enhance written policies and procedures governing the fee development process.

OC Public Works Management Response:

Concur. OC Public Works will use Health Care Agency's Fee Study Procedures as a starting point to develop expanded policies and procedures that are appropriate to OC Public Works' various fee types and structures.



Audit Objective #2: Evaluate compliance with County Accounting Manual procedures Nos. R-3 – *Revenue Policy, Requirements & Responsibilities*, and B-2 – *Billing Rates and Indirect Costs*, and evaluate the impact on fee development from the recently passed State Proposition 26.

AUDIT STEPS AND RESULTS

To accomplish this objective, we audited internal controls over **compliance** of the OCPW fee development and fee study process with County Accounting Manual procedures Nos. R-3 – *Revenue Policy, Requirements & Responsibilities*, and B-2 – *Billing Rates and Indirect Costs*. We performed the following audit steps:

- ✓ Held meetings and conducted walkthroughs of the fee development process and controls with the OCPW Finance Manager responsible for departmental fee development.
- ✓ Assessed OCPW's compliance with County Accounting Manual procedures Nos. R-3, B-2, and Proposition 26 requirements.
- ✓ Limited review of a sample of fee studies and related documentation to determine they were developed in accordance with certain CAM R-3 and B-2 requirements.

CONCLUSION

We found that improvement is needed in controls and processes over the fee development process to ensure compliance with County policy requirements in the frequency of fee studies conducted and adherence to the policy for “full cost recovery” fees. OCPW did review its existing fees and charges and made a determination that all OCPW fees meet the exception to Proposition 26 definition of a “tax,” and is noted as such in the FY 11-12 Fee Inventory Listings.

We were informed that the fee development process has been significantly impacted by limited staffing resources and by other departmental priorities. We identified **four (4) Significant Control Weaknesses** where improvements are needed, as discussed below.

Finding 6 – Frequency of Fee Studies Not in Compliance With County Policy

Summary

OCPW did not perform annual fee studies or obtain approval to extend the fee studies to every three years as required by the County policy. **(Significant Control Weakness)**

Details

CAM Policy, *R-3: Revenue Policy, Requirements & Responsibilities*, states:

“All cost recovery revenue rates shall be updated at least once each year to reflect current costs. When the cost associated with making this annual determination appears to be excessive, with the approval of CEO and the Auditor-Controller, a complete update shall be made no later than every third year.”

In addition, Section 3 ~ Responsibilities (Departments, Agencies, etc.), Part 3.1.5, Revenue Sources, states: “Updating of existing revenue rates to ensure full cost recovery, with the assistance of the Auditor-Controller, consistent with Board of Supervisor’s policies.”

Our audit found that several fee studies were not performed annually and CEO/A-C approval to extend the fee studies to every three years was not obtained, per CAM R-3 requirements.

Based on our review of OCPW’s revised FY 11/12 Fee Inventory, there are a total 88 fees that are charged to the public and that require Board approval. Fee revenue from these fees in FY 10-11 totaled \$11,513,854. Our audit found that **26 of the 88 fee studies are overdue** for a fee study review (\$2,222,486 or 19.30% of revenue).



OCPW Finance cited a lack of staffing and resources as the reason the fee studies were not completed timely. As a result, there is non-compliance with County policies and procedures, and OCPW's costs of providing services may not be fully recovered in compliance with Board policy. The policy does allow departments to request an extension to perform fee studies every three years, but OCPW did not obtain written approval from the County Executive Office and Auditor-Controller.

Recommendation No. 6

OCPW ensure cost recovery rates are updated in compliance with County policies and procedures.

OC Public Works Management Response:

Concur. This deficiency has resulted from a lack of resources. However, OC Public Works will use Health Care Agency's Fee Study Procedures as a starting point to develop expanded policies and procedures that are appropriate to OC Public Works' various fee types and structures. Additionally, OC Public Works is working with the OCPW/Information Technology section to develop a tracking application and automated workflow that will insure that all preparation, review and approval of the various fee studies are performed within timeframes as required by County Accounting Procedure R-3, or extended if necessary. Documentation of any approved extensions will be included.

It should be noted, however, that without additional resources, it will be challenging for OC Public Works to get the fee studies current within a reasonable amount of time. In August 2012, CEO approved the unfreeze of one fee analyst position for OCPW Finance Services, which will be helpful in updating fee studies in timely manner.

Findings 7-9 – Adherence to Full Cost Recovery Policy

Summary

Our audit noted some areas where the policy requirement for full cost recovery was not achieved or adequately disclosed. Our limited testing of fee studies, Fee Checklists, ASR and supporting documentation disclosed issues concerning fees being reported as full cost recovery, but not meeting the policy requirements of full cost recovery. **(Significant Control Weaknesses)**

Details

CAM Policy, R-3: *Revenue Policy, Requirements & Responsibilities* – has the following requirements concerning full cost recovery:

“All County departments...shall generate revenue from non-property tax sources whenever possible; however, such proposed revenues shall be reasonably related to services provided. No fee or service charge may exceed the estimated amount required to provide the service for which the fee or charge is levied. All grants, joint-power agreements, lease agreements, and revenue producing contracts shall include provisions for full County cost recovery wherever possible unless other provisions have been approved by the CEO in writing.”

Departments are responsible for “Updating of existing revenue rates to ensure full cost recovery, with the assistance of the A-C, consistent with BOS policies.”

“The concept that all departmental/agency and County General overhead costs are included in allocations of overhead to direct services so that fees, rates or charges include recovery of all County costs.”

Detailed Results, Findings, Recommendations and Management Responses



“AIT for new fees and fee increases must contain detailed information concerning the costs to be covered by the fee and the expected amount of revenue to be generated. This information must be included on the Fee Checklist with supporting detail.”

We reviewed the ASR, Fee Checklist, and related supporting documentation for two completed fee studies: 2011 **La Mirada Sewer Fee Study** and selected parts of the 2010 **OCPW’s Building and Planning Fee Ordinance**. In the following instances, the accompanying Fee Checklists indicated “Full Cost Recovery” was planned; however, the fees did not fully comply with the definition of full cost recovery as stated in County policy.

Full cost recovery shall be achieved whenever possible. However, if full cost recovery is not feasible or there are justifiable reasons why not all costs would be recovered by the associated fees, it should be clearly disclosed on the Fee Checklist with an explanation.

- CWCAP allocations were not included on the two Fee Checklists submitted for the Building and Planning Fee Ordinance Study. County overhead allocations (CWCAP) are required to be included for full cost recovery. **(Finding 7)**
- Department indirect costs of approximately \$700 for FY 9/10 and FY 10/11 were not charged in the La Mirada Sewer Fee Study. Indirect costs are required to be included for full cost recovery. **(Finding 7)**
- Net County Cost (NCC) of \$3.9 million was disclosed in the ASR and included on the Planning Fee Checklist submitted with the Building and Planning Fee Ordinance Study with concurrence from the Auditor-Controller and CEO. It appears that not all costs associated with this fee study were expected to be covered by the proposed fees, resulting in NCC. Therefore, the Fee Checklist should indicate that “Full Cost Recovery” is not planned and the reason/justification for not including all associated costs should be clearly stated. **(Finding 8)**
- In the La Mirada Sewer Fee Study, an operating transfer of \$3,000 was required from the General Fund to ensure available cash flow to make the necessary sewer payment. This operating transfer was not considered in the fee study and there are no plans to reimburse the General Fund with future fee revenue. Therefore, the fee revenue is not sufficient to fully recover the costs of providing this service, as required for full cost recovery. **(Finding 8)**
- The Building and Planning Fee Ordinance Study included a proposed Electrical Permit Application Flat Fees at \$250; however, the fee study indicated actual staff costs were \$449. The proposed fee was less than the actual costs resulting in less than full cost recovery. We were informed the cost of electrical fees was adjusted based on comparable peer agency charges, and that the “overall” fees are full cost recovery. If “overall” fees are full cost recovery, and some are below actual costs, some fees may then exceed the actual costs, which is not the intent of the County policy. **(Finding 8)**
- The Building and Planning Fee Ordinance Study covered numerous individual fees for specific services. The Fee Checklists and supporting documentation showed estimated costs and revenues in total, not by individual fee. Sufficient detail should be documented on the Fee Checklist (or referred to in an attachment), to determine the fee, per service, does not exceed the estimated cost to provide that service as required by County policy. **(Finding 9)**

Recommendation No. 7

OCPW ensure CWCAP and other indirect costs are included in allocations of overhead, even if CWCAP is not directly charged, to ensure full cost recovery in compliance with County policy.

Detailed Results, Findings, Recommendations and Management Responses



OC Public Works Management Response:

Concur. Per CEO and Board direction, CWCAP was not to be an element in the Building/Planning Fee calculation. This will be more clearly identified in future Fee Checklists with appropriate documentation.

The La Mirada Sewer Fee Study for FY 11/12 included all of the necessary elements for full cost recovery. OC Public Works will include all assumptions and justifications in the Fee Checklist as appropriate.

Recommendation No. 8

OCPW ensure proposed fees are calculated for full cost recovery if possible, in compliance with County policy. If full cost recovery is not feasible, provisions should be approved by CEO in writing in compliance with County policy and should be clearly disclosed in the Fee Checklist and ASR.

OC Public Works Management Response:

Concur. Where OC Public Works fees are not designed to be fully cost recovered, and as part of the P&P's developed in Finding No. 5, OC Public Works will insure that proper documentation is obtained and provided as a part of the ASR.

Recommendation No. 9

OCPW provide supporting documentation to accompany the Fee Checklist and ASR with sufficient detail to identify costs and revenue per fee or service.

OC Public Works Management Response:

Concur. There are over 40 different fees in the Building and Planning Fee Ordinance approved by the Board of Supervisors. OC Public Works is required by the Board to review the Building and Planning Fees annually during the budget process. Preparing a Fee Checklist for each of the fees for Building and Planning Fees would be cumbersome and extremely time consuming. OC Public Works can attach the supporting documentation showing costs and revenues for the individual fees to the Fee Checklist.

Audit Objective #3: Determine if the process is efficient and effective (e.g., no backlogs, duplication of work, manual processes that could be automated).

AUDIT STEPS AND RESULTS

To accomplish this objective, we used auditor inquiry and observation to determine if OCPW's fee development process was efficient and effective in the areas noted under this objective.

- ✓ Held meetings, conducted walkthroughs, and made auditor observations and inquiries of the fee development process with the OCPW Finance Manager responsible for departmental fee development.
- ✓ Evaluated OCPW fee development written policies and procedures.
- ✓ Evaluated the accuracy and completeness of OCPW's Fee Inventory Listings and reviewed two recently completed fee studies, Fee Checklists, ASR and supporting documentation.

CONCLUSION

We did not note any instances of duplication of work or manual processes that could be automated in OCPW's fee development process. However, our audit disclosed several issues concerning the administration and governance over the fee development process, and compliance with County Revenue Policy requirements. We identified and discussed these issues under **Audit Objectives #1 and #2.**



As discussed above in **Finding No. 6**, OCPW has not conducted several fee studies on an annual basis, or obtained approval from the County Executive Office to conduct fee studies every three years, as required by CAM R-3. We also identified instances where OCPW's Fee Inventory Listing was incomplete, there was no formal process to track fee studies, and several revenue line items in the General Ledger where there were significant amounts of unidentified/miscellaneous revenue, as discussed above in **Finding Nos. 1, 2 and 3**.

We were informed that the above issues were the result of limited staffing and resources in OCPW Finance for the fee development process. As such, we identified **one (1) Significant Control Weakness** concerning overall efficiency and effectiveness of the fee development process, as discussed below.

Finding 10 – Resource Impact on Fee Development Process

Summary

OCPW's administration of the fee development process has been impacted by limited staffing and resources in OCPW Finance. **(Significant Control Weakness)**

Details

OCPW has not conducted several fee studies on an annual basis, or obtained approval from the County Executive Office to conduct fee studies every three years as required by CAM R-3 (County Revenue Policy). We also identified instances where OCPW's Fee Inventory Listing submitted to the County Executive Office was incomplete; there was no formal process in OCPW Finance to track fee studies; and several revenue line items in the General Ledger where there were significant amounts of unidentified/miscellaneous revenue.

We were informed that the above issues were the result of limited staffing and resources in OCPW Finance allocated to the fee development process. In addition, the OCPW Finance Manager transferred to another County agency during the audit resulting in another staffing resource issue.

OCPW has an opportunity to evaluate the resources allocated to OCPW Finance given our assessment of internal controls and processes over the fee development process.

In the evaluation, OCPW should consult with the Health Care Agency's Revenue Unit. We conducted an audit of the Health Care Agency Fee-Generated Revenues (Audit No. 1024), where we found the fee development process, procedures, and controls to be a best practice that could be used by other County departments/agencies. We provided OCPW Finance a copy of the Health Care Agency written policies and procedures for fee development during the audit.

Recommendation No. 10

OCPW conduct an evaluation of the adequacy of staffing and resources allocated to OCPW Finance for administration of the fee development process. In the evaluation, OCPW should consider consulting with the Health Care Agency Revenue Unit for ideas in implementing some of the best practices used in its fee development process.

OC Public Works Management Response:

Concur. Prior to the reorganization of OC Parks into OC Community Resources, OC Public Works, Finance Services had a Fee Analyst position. During reorganization, the position and the incumbent were transferred to OC Parks. OC Public Works has reviewed existing vacant positions and identified an Administrative Manager I vacancy that will be reallocated to perform this function. In August 2012, CEO/Budget approved the unfreeze request and OC Public Works has made filling this position a priority. However, until we have dedicated staff to perform fee analysis, efforts to bring the Fees up to date will be hindered.




ATTACHMENT A: Report Item Classifications

For purposes of reporting our audit observations and recommendations, we will classify audit report items into three distinct categories:

- ▶ **Critical Control Weaknesses:**
Serious audit findings or a combination of Significant Control Weaknesses that represent critical exceptions to the audit objective(s) and/or business goals. Management is expected to immediately address Critical Control Weaknesses brought to their attention.
- ▶ **Significant Control Weaknesses:**
Audit findings or a combination of Control Findings that represent a significant deficiency in the design or operation of internal controls. Significant Control Weaknesses generally will require prompt corrective actions.
- ▶ **Control Findings:**
Audit findings concerning internal controls, compliance issues, or efficiency/effectiveness issues that require management's corrective action to implement or enhance processes and internal controls. Control Findings are expected to be addressed within our follow-up process of six months, but no later than twelve months.



ATTACHMENT B: OC Public Works Management Responses



memo

Ignacio Ochoa, Interim Director
300 N. Flower Street
Santa Ana, CA
P.O. Box 4048
Santa Ana, CA 92702-4048
Telephone: (714) 834-2300
Fax: (714) 834-5188

RECEIVED
INTERNAL AUDIT DEPARTMENT
2012 AUG 29 PM 2: 26

DATE: August 28, 2012

TO: Dr. Peter Hughes, CPA, Director
Internal Audit Department

FROM: Ignacio Ochoa, Interim Director

SUBJECT: Response to OC Public Works – Fee Generated Revenue, Audit No. 1022

I am pleased to provide OC Public Works' response to the Internal Audit Department's Draft Report on the OC Public Works – Fee Generated Revenue Audit No. 1022. Our response has been reviewed and approved by the County Executive Office.

We will work to implement the Internal Audit Department's recommendations as indicated in our following responses.

I would like to express my appreciation for the professionalism of the Internal Audit Department staff that conducted this audit.

Should you have any questions regarding OC Public Works' responses to the recommendations, or require additional information on these items, please contact Randi Dunlap at (714) 667-3282 or Mary Fitzgerald at (714) 667-9701.

Thank you.

Attachment

c: Mary Fitzgerald, Director, Administrative Services, OC Public Works
Randi Dunlap, Manager, Administrative Services, OC Public Works



ATTACHMENT B: OC Public Works Management Responses (continued)

OC Public Works Fee Generated Revenue, Audit No. 1022
Page 2 of 6

OC Public Works Responses to the Internal Audit Department's Draft Report: OC Public Works Fee Generated Revenue, Audit No. 1022

Finding No. 1

OCPW Finance does not have a formalized method for tracking and monitoring fee studies to ensure they are performed timely. **(Critical Control Weakness)**

Recommendation No. 1

OCPW immediately develop a fee study monitoring process to ensure adequate monitoring of fee studies due for review.

OC Public Works Management Response:

Concur. This deficiency has resulted from a lack of resources. However, OC Public Works will use Health Care Agencies Fee Study Procedures as a starting point to develop expanded policies and procedures that are appropriate to OC Public Works' various fee types and structures. Additionally, OC Public Work's is working with the OCPW/Information Technology section to develop a tracking application and automated workflow that will insure that all preparation, review and approval of the various fee studies are performed promptly and are appropriately documented.

It should also be noted, however, that without additional resources, it will be challenging for OC Public Works to get the fee studies current within a reasonable amount of time. In August 2012, CEO approved the unfreeze of one fee analyst position for OCPW Finance Services, which will be helpful in updating fee studies in timely manner.

Finding No. 2

In determining the audit population of OCPW fees, we noted OC Public Works has several General Ledger revenue line items with large balances totaling over \$12 million that are recorded as "Undefined/Misc." **(Significant Control Weakness).**

Recommendation No. 2

OCPW immediately identify revenue accounts (department revenue source codes) currently recorded as Undefined/Miscellaneous to clearly indicate the nature and source of the revenue deposits.

OC Public Works Management Response:

Concur. While there is no County or Accounting policy that mandates the use of specific Department Revenue Source Codes, we agree that doing so allows for clearer identity of the nature or source of the revenue.

In response to this finding, OC Public Works is working with OC Public Works Accounting in developing a process to identify and assign a separate Department Revenue Source Code for all unidentified deposits before they are input. By doing so, OC Public Works will limit the use of the default codes and have a more accurate record of the different types of revenue received.



ATTACHMENT B: OC Public Works Management Responses (continued)

OC Public Works Fee Generated Revenue, Audit No. 1022
Page 3 of 6

Finding No. 3

OCPW's Fee Inventory Listing prepared for FY 11/12 during the annual budget process and submitted to the CEO/Budget Office contained some duplicated fees, some fees were listed in error, and some fees were not included. **(Significant Control Weakness)**

Recommendation No. 3

OCPW ensure the annual Fee Inventory provided to CEO/Budget is accurate and complete.

OC Public Works Management Response:

Concur. The Fee Inventory was updated and corrected after the 2012 submission. The updating of the annual Fee Inventory has been incorporated into the annual OC Public Work's Budget calendar in order to allow enough time for a comprehensive review prior to submission to CEO/Budget. The Inventory will also be reviewed throughout the year as Fee Studies are initiated and adopted.

Finding No. 4

The preparation and review/approval of fee studies is not formally documented by the preparer and reviewer in accordance with OCPW procedures and good internal control practices. In instances when there was documentation, the documents evidencing the preparation and approval were not consistently retained. **(Significant Control Weakness)**

Recommendation No. 4

OCPW document the preparation, review, and approval of fee studies and ensure the documentation is retained as evidence of compliance with OCPW policy.

OC Public Works Management Response:

Concur. It should be noted that the few fee studies that were presented to the Board of Supervisor in the last few years were carefully reviewed by OC Public Works' Management, CEO/Budget and the Auditor-Controller. The deficiency noted was in the lack of documentation. OC Public Work's is working with the OCPW/Information Technology section to develop a tracking application that includes an automated workflow that will insure that all preparation, review and approval of the various fee studies are appropriately documented.

Finding No. 5

OCPW's written procedures for fee development and fee studies are lacking certain information and guidelines important in administering the fee development process. **(Significant Control Weakness)**



ATTACHMENT B: OC Public Works Management Responses (continued)

OC Public Works Fee Generated Revenue, Audit No. 1022
Page 4 of 6

Recommendation No. 5

OCPW enhance written policies and procedures for the fee development process.

OC Public Works, OC Finance Services Response:

Concur. OC Public Works will use Health Care Agencies Fee Study Procedures as a starting point to develop expanded policies and procedures that are appropriate to OC Public Works' various fee types and structures.

Finding No. 6

OC Public Works did not perform annual fee studies or obtain approval to extend them to every three years as allowed by County Accounting Procedure R-3. **(Significant Control Weakness)**

Recommendation No. 6

OCPW ensure cost recover rates are updated in compliance with County policies and procedures.

OC Public Works Management Response:

Concur. This deficiency has resulted from a lack of resources. However, OC Public Works will use Health Care Agencies Fee Study Procedures as a starting point to develop expanded policies and procedures that are appropriate to OC Public Works' various fee types and structures. Additionally, OC Public Work's is working with the OCPW/Information Technology section to develop a tracking application and automated workflow that will insure that all preparation, review and approval of the various fee studies are performed within timeframes as required by County Accounting Procedure R-3, or extended if necessary. Documentation of any approved extensions will be included.

It should also be noted, however, that without additional resources, it will be challenging for OC Public Works to get the fee studies current within a reasonable amount of time. In August 2012, CEO approved the unfreeze of one fee analyst position for OCPW Finance Services, which will be helpful in updating fee studies in timely manner.

Finding No. 7

CWCAP allocations were not included on the two Fee Checklists submitted for the Building and Planning Fee Ordinance Study. County overhead allocations (CWCAP) are required to be included for full cost recovery.

Department indirect costs of approximately \$700 for FY 9/10 and FY 10/11 were not charged in the La Mirada Sewer Fee Study. Indirect costs are required to be included for full cost recovery. **(Significant Control Weakness)**

Recommendation No. 7

OCPW ensure CWCAP and other indirect costs are included allocations of overhead, even if CWCAP is not directly charged, to ensure full cost recovery in compliance with County policy.



ATTACHMENT B: OC Public Works Management Responses (continued)

OC Public Works Fee Generated Revenue, Audit No. 1022
Page 5 of 6

OC Public Works Management Response:

Concur. Per CEO and Board direction, CWCAP was not to be an element in the Building/Planning Fee calculation. This will be more clearly identified in future Fee Checklists with appropriate documentation.

The La Mirada Sewer Fee Study for FY 11/12 included all of the necessary elements for full cost recovery. OC Public Works will include all assumptions and justifications in the Fee Checklist as appropriate.

Finding No. 8

Net County Cost (NCC) of \$3.9 million was disclosed in the ASR and included on the Planning Fee Checklist submitted with the Building and Planning Fee Ordinance Study with concurrence from the Auditor-Controller and CEO. It appears that not all costs associated with this fee study were expected to be covered by the proposed fees, resulting in NCC. Therefore, the Fee Checklist should indicate that "Full Cost Recovery" is not planned and the reason/justification for not including all associated costs should be clearly stated.

In the La Mirada Sewer Fee Study, an operating transfer of \$3,000 was required from the General Fund to ensure available cash flow to make the necessary sewer payment. This operating transfer was not considered in the fee study and there are no plans to reimburse the General Fund with future fee revenue. Therefore, the fee revenue is not sufficient to fully recover the costs of providing this service, as required for full cost recovery.

The Building and Planning Fee Ordinance Study included a proposed Electrical Permit Application Flat Fees at \$250; however, the fee study indicated actual staff costs were \$449. The proposed fee was less than the actual costs resulting in less than full cost recovery. We were informed the cost of the electrical fees was adjusted based on comparable peer agency charges and the "overall" fees are full cost recovery. If "overall" fees are full cost recovery, and some are below actual costs, some fees may then exceed actual costs, which is not the intent of the County policy. **(Significant Control Weakness)**

Recommendation No. 8

OCPW ensure proposed fees are calculated for full cost recovery if possible, in compliance with County policy. If full cost recovery is not feasible, provisions should be approved by CEO in writing and should be clearly disclosed in the Fee Checklist and ASR.

OC Public Works Management Response:

Concur. Where OC Public Works fees are not designed to be fully cost recovered, and as part of the P&P's developed in Finding No. 5, OC Public Works will insure that proper documentation is obtained and provided as a part of the ASR.



ATTACHMENT B: OC Public Works Management Responses (continued)

OC Public Works Fee Generated Revenue, Audit No. 1022
Page 6 of 6

Finding No. 9

The Building and Planning Fee Ordinance Study covered numerous individual fees for specific services. The Fee Checklists and supporting documentation showed estimated costs and revenues in total, not by individual fee. Sufficient detail should be documented on the Fee Checklist (or referred to in an attachment), to determine the fee, per service, does not exceed the estimated cost to provide that service as required by County policy. **(Significant Control Weakness)**

Recommendation No. 9

OCPW provide supporting documentation to accompany the Fee Checklist and ASR with sufficient detail to identify costs and revenue per fee or service.

OC Public Works Management Response:

Concur. There are over 40 different fees in the Building and Planning Fee Ordinance approved by the Board of Supervisors. OC Public Works is required by the Board to review the Building and Planning Fees annually during the budget process. Preparing a Fee Checklist for each of the fees for Building and Planning Fees would be cumbersome and extremely time consuming. OC Public Works can attach the supporting documentation showing costs and revenues for the individual fees to the Fee Checklist.

Finding No. 10

OCPW's administration of the fee development process has been impacted by limited staffing and resources in OC Public Work's Finance Services. **(Significant Control Weakness)**

Recommendation No. 10

OCPW Conduct an evaluation of the adequacy of staffing and resources allocated to OC Public Works Finance Services for the administration of the fee development process. In the evaluation, OCPW should consider consulting with the Health Care Agency Revenue Unit for ideas in implementing some of the best practices used in its fee development process.

OC Public Works, OC Finance Services Response:

Concur. Prior to the reorganization of OC Parks into OC Community Resources, OC Public Works, Finance Services had a Fee Analyst position. During reorganization, the position and the incumbent were transferred to OC Parks. OC Public Works has reviewed existing vacant positions and identified an Administrative Manager I vacancy that will be reallocated to perform this function. In August 2012, CEO/Budget approved the unfreeze request and OC Public Works has made filling this position a priority. However, until we have dedicated staff to perform fee analysis, efforts to bring the Fees up to date will be hindered.