

Internal Audit Department

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

FINAL CLOSE-OUT SECOND FOLLOW-UP INTERNAL CONTROL AUDIT:

OC COMMUNITY RESOURCES FEE GENERATED REVENUE

AS OF JULY 31, 2014

Our Second Follow-Up Audit found that OC Community Resources (OCCR) fully implemented the five (5) recommendations remaining from our original audit. Previously, four (4) recommendations were in process and one (1) was not yet implemented in our First Follow-Up audit report dated January 28, 2014.

During the original audit period, OCCR received fee generated revenue derived from licenses, permits and franchises, and charges for services totaling \$21.4 million.

AUDIT NO: 1222-F2
(REFERENCE 1430)
ORIGINAL AUDIT NO. 1222

REPORT DATE: AUGUST 8, 2014

Director: Dr. Peter Hughes, MBA, CPA, CIA
Senior Audit Manager: Michael Goodwin, CPA, CIA
Audit Manager: Michael Dean, CPA, CIA

RISK BASED AUDITING

GAO & IIA Peer Review Compliant – 2001, 2004, 2007, 2010, 2013



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, 2013

Providing Facts and Perspectives Countywide

RISK BASED AUDITING

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OC Fraud Hotline (714) 834-3608

Letter from Dr. Peter Hughes, CPA

Transmittal Letter



Audit No. 1222-F2 August 8, 2014

TO: Steve Franks, Director, OC Community Resources
Jan Grimes, Auditor-Controller

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

SUBJECT: **Second and Final Close-Out** Follow-Up Internal Control Audit: OC Community Resources Fee Generated Revenue, Original Audit No. 1222, Issued March 5, 2013

We have completed a Second Follow-Up Internal Control Audit of OC Community Resources Fee Generated Revenue. Our audit was limited to reviewing, as of July 31, 2014, actions taken to implement the **five (5) recommendations** from our First Follow-Up Audit report dated January 28, 2014. We conducted this Second Follow-Up Audit in accordance with the *FY 14-15 Audit Plan and Risk Assessment* approved by the Audit Oversight Committee.

The results of our Second Follow-Up Audit are discussed in the **OC Internal Auditor's Report** following this transmittal letter. Our Second Follow-Up Audit found OC Community Resources **implemented the remaining five (5) recommendations. As such this report represents the final close-out of the original audit**

Each month I submit an **Audit Status Report** to the Board of Supervisors (BOS) where I detail any material 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.

Other recipients of this report are listed on the **OC Internal Auditor's Report** on page 3.

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OC Community Resources Fee Generated Revenue
Audit No. 1222-F2***

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OC Internal Auditor's Report



Audit No. 1222-F2

August 8, 2014

TO: Steve Franks, Director, OC Community Resources
Jan Grimes, Auditor-Controller

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

SUBJECT: Second and Final Close-Out Follow-Up Internal Control Audit: OC Community Resources Fee Generated Revenue, Original Audit No. 1222, Issued March 5, 2013

Scope of Review

We have completed a Second Follow-Up Internal Control Audit of OC Community Resources (OCCR) Fee Generated Revenue. Our audit was limited to reviewing actions taken, as of July 31, 2014, to implement the **five (5) recommendations** remaining from our First Follow-Up Audit report dated January 28, 2014.

Background

We conducted an Internal Control Audit of the OCCR fee generated revenue, which included an evaluation of internal controls for fee development; a determination of compliance with County and OCCR policies and procedures; and an evaluation of the efficiency and effectiveness of OCCR's fee generated revenue process. During the original audit period, OCCR received fee generated revenue derived from licenses, permits and franchises, and charges for services totaling **\$21.4 million**.

The original audit identified **five (5) Control Findings** concerning performance of independent desk reviews of fee studies; incomplete Fee Inventory listings; establishing written policies and procedures over fee development processes, and ensuring compliance with the County Accounting Manual Procedures concerning the frequency and methodology of fee studies.

Results

Our Second Follow-Up Audit found OCCR took satisfactory corrective action to implement the five (5) remaining recommendations. **This report represents the final close-out of the original audit.**

Based on our Follow-Up Audits, the following is the implementation status of the five (5) original recommendations. The item number from the original audit is shown before each heading.

1. **No Independent Desk Reviews of Fee Studies (Control Finding)**

OCCR and OCCR Accounting ensure that independent desk reviews be performed, documented and retained on fee studies and supporting fee schedules to ensure validity and accuracy of data and amounts shown.

Current Status: Implemented (Second Follow-Up Audit). OCCR revised its Fee Development Policy and Procedure in March 2014. The procedure requires all fee studies undergo "independent reviews by Department Budget or Business Practices staff to ensure accuracy." In the procedure, responsibility for monitoring and preparing studies is assigned to department staff, third party consultants or auditors. No OCCR fee studies have been completed since the first follow-up audit. Because OCCR modified its procedure to assign responsibility for preparing, monitoring and performing independent reviews of its fee studies, we consider this recommendation **implemented**.



2. **Incomplete Fee Inventory Listings – OC Parks and OC Public Libraries (Control Finding)** OCCR ensure its annual Fee Inventory provided to CEO/Budget is accurate, complete and lists individual fees.

Current Status: Implemented (Second Follow-Up Audit). OCCR submitted its Fee Inventory for OC Parks for FY 14/15 in March 2014. On the Fee Inventory, it is stated that “all fees are itemized in further detail and dollar amounts in the attached OC Parks Fee Schedule.” We verified that the Fee Schedule for OC Parks lists the individual fees. Since the Fee Inventory contains a reference to the Fee Schedule and the Fee Schedule shows individual fee amounts, we consider this recommendation **implemented**.

3. **No Fee Development Policies and Procedures – OC Parks and OC Public Libraries (Control Finding)** OCCR develop written policies and procedures governing the fee development process for OC Parks and OC Public Libraries.

Current Status: Implemented (Second Follow-Up Audit). As stated in #1 above, OCCR revised its Fee Development Policy and Procedure in March 2014. The procedure assigns responsibility for the tracking and performing of fee studies; provides a methodology and guidance for staff in conducting the studies; and was approved by OCCR’s Policy Team at its August 2014 meeting. Because OCCR developed written policy and procedures for the fee development process, we consider this recommendation **implemented**.

4. **Compliance with Policy Requirements for Full-Cost Recovery and Frequency of Cost Recovery Rate Updates (Control Finding)** OCCR ensure cost recovery fees are updated annually in compliance with CAM R-3. If fees are not updated annually, OCCR should obtain approval for an extension from the County Executive Office and Auditor-Controller as indicated in CAM R-3.

Current Status: Implemented (Second Follow-Up Audit). OCCR submitted a memo to the CEO in March 2014 as part of the FY 14/15 budget process requesting concurrence to review and prepare new fee schedules every three (3) years for OC Parks, OC Public Libraries and OC Animal Care. The memo states that most of the fees are not based upon full cost-recovery. As such, we consider this recommendation **implemented**.

5. **Fee Study Methodology – OC Parks Not Using Actual Costs (Control Finding)** OCCR ensure OC Parks completes a fee study that incorporates actual costs incurred as support for its next fee revision.

Current Status: Implemented (Second Follow-Up Audit). OCCR revised its Fee Development Policy and Procedure in March 2014. The procedure states that, “none of the fees are calculated based upon full cost recovery...fees are determined primarily based on their comparability with those charged by other park systems in Southern California (e.g., park entry, parking and camping) or, when applicable, with fees charged by the private sector (e.g. weddings).” In addition, OCCR submitted a memo to the CEO in March 2014 as part of the FY 14/15 budget process requesting an exemption from using actual costs. It states, “OCCR is also requesting that we remain exempted from full cost revenue recovery of fees for all of our programs that generate fee revenue. While we will continue to make every attempt to recover as much of the actual cost(s) as possible, OC Parks...fees are based on other factors, including use feasibility...as well as benchmarking fees with other jurisdictions.”

OC Internal Auditor's Report



Because OCCR has updated its procedure regarding OC Parks not using actual costs incurred, and has requested concurrence from the CEO, we consider this recommendation **implemented**.

We appreciate the cooperation of OCCR during this Follow-Up Audit. If you have any questions, please contact me directly at 834-5475 or Michael Goodwin, Senior Audit Manager at 834-6066.

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

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Members, Audit Oversight Committee
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Mark Denny, Chief Operating Officer
Mike Kerr, Assistant to the Chief Operating Officer
Stacy Blackwood, Director, OC Parks
Ryan Drabek, Director, OC Animal Care
Helen Fried, County Librarian, OC Public Libraries
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