

Internal Audit Department

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

Internal Control Audit: OC COMMUNITY RESOURCES FEE GENERATED REVENUE

For the Period July 1, 2011
through June 30, 2012

Key Control Audit

During FY 11-12, OC Community Resources generated approximately \$21 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 Community Resources (OCCR) 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 Board of Supervisor approval. We also evaluated compliance with County Accounting Manual policies and procedures for preparing and submitting fee proposals, and if the fee development process is efficient and effective.

Our audit found internal controls over the administration of OCCR's fee development process **are adequate and effective**, with some exceptions, to ensure compliance with County Accounting Manual procedures. We identified **five (5) Control Findings** to improve controls with regards to fee development process, policies, procedures and compliance with County policy.

AUDIT NO: 1222
REPORT DATE: MARCH 5, 2013

Director: Dr. Peter Hughes, MBA, CPA, CIA
Deputy Director: Eli Littner, 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



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

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

Letter from Dr. Peter Hughes, CPA



Transmittal Letter



Audit No. 1222 March 5, 2013

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

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

SUBJECT: Internal Control Audit: OC Community Resources
Fee Generated Revenue

We have completed an Internal Control Audit of OC Community Resources' Fee Generated Revenue Process for the period July 1, 2011 through June 30, 2012. We performed this audit in accordance with our *FY 2012-13 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 department 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 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.

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 6.

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OC Community Resources
Fee Generated Revenue
Audit No. 1222*

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OC Internal Auditor's Report



Audit No. 1222

March 5, 2013

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

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

SUBJECT: Internal Control Audit: OC Community Resources
Fee Generated Revenue

Audit Highlight

OC Community Resources was created in March 2008 to provide greater access to residents and visitors who want to fully utilize the resources available in their communities. This was achieved by bringing the following four programs into one department:

- OC Animal Care
- OC Community Services
- OC Parks
- OC Public Libraries

Although services provided by the OCCR programs are distinct, allowing them to partner together benefits the public by improving the quality and efficiency of service provided to County residents and visitors.

OC Community Resources is structured to minimize bureaucracies and accelerate management action to operate in the most efficient, accountable, and responsive manner possible. In other words, OC Community Resources is committed to connecting people with resources.

Our audit identified **five (5) Control Findings** to improve fee development processes and controls.

OBJECTIVES

In accordance with our *FY 2012-13 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 Community Resources (OCCR) Fee Generated Revenue. Our audit included an evaluation of internal controls, testing compliance with OCCR, OCCR Accounting 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 internal controls over fee development processes for 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 OCCR and County policies.
2. Evaluate for 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 fee development process is efficient and effective (e.g., no backlogs, duplication of work or manual processes that could be automated).

RESULTS

Objective #1: Our audit found internal controls over OCCR's fee development processes are adequate and effective to ensure compliance with departmental and County policies. We identified **three (3) Control Findings** regarding independent reviews of fee studies, fee inventory listings, and written policies and procedures over the fee development process.

Objective #2: Our audit found OCCR is in compliance with County Accounting Manual procedures No. R-3 – *Revenue Policy, Requirements & Responsibilities* and B-2 – *Billing Rates and Indirect Costs*. OCCR has addressed the impact of State Proposition 26 on the fee development process. We identified **two (2) Control Findings** to ensure compliance with the County Accounting Manual Procedures in regards to frequency of fee studies and fee study methodology.

Objective #3: Our audit did not note any instances of duplication of work or processes that could be automated in OCCR's fee development process.

OC Internal Auditor's Report



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 (see Attachment A)	Finding and Page No. in Audit Report	Recommendation	Concurrence by Management?
1.	Control Finding	Independent desk reviews of fee studies were not performed (pgs.7-8).	OCCR and OCCR Accounting ensure independent desk reviews are performed, documented and retained.	Yes
2.	Control Finding	The FY 12-13 Fee Inventory submitted to CEO/Budget listed some fees in error and some fees were grouped together (pgs.8-9).	OCCR ensure its annual Fee Inventory provided to CEO/Budget lists accurate individual fees.	Yes
3.	Control Finding	OCCR does not maintain written policies and procedures for OC Parks' and OC Public Libraries' fee development processes (pg.9).	OCCR develop written policies and procedures governing the fee development process for OC Parks and OC Public Libraries.	Yes
4.	Control Finding	OCCR did not perform annual fee studies or obtain approval to extend them to every three years as allowed by County Accounting Manual Procedure (CAM) R-3 (pgs.10-12).	OCCR ensure fees are updated in compliance with CAM R-3.	Partially Concur
5.	Control Finding	OC Parks submitted a Fee Revision package for Board of Supervisors approval in December 2010. A detailed study of costs was not performed (pg.12).	OCCR ensure OC Parks completes a fee study that incorporates actual costs into its next Fee Revision.	Partially Concur



BACKGROUND

OC Community Resources (OCCR) was established in March 2008 by the Board of Supervisors to provide greater access to residents and visitors who want to fully utilize the resources available in their communities. Its mission is "Connecting People and Resources." OCCR is able to achieve their mission by bringing together the following four programs:

1. OC Animal Care

Manages and operates the County's animal shelter whose mission is to protect the public against health threats; provides refuge, medical care and a second chance to unwanted and abused pets; and protects animals' rights for humane treatment.

2. OC Community Services

Facilitates the provision of services that enhance quality of life, including affordable housing opportunities for renters and homeowners; community revitalization; and services for special needs populations such as older adults, veterans, victims of domestic violence or hate crimes, the unemployed, and the homeless.

3. OC Parks

As a steward of natural and cultural resources, OC Parks manages and operates a system consisting of twelve urban regional parks, five wilderness parks, three nature preserves, nine beaches, portions of two harbors, 300 miles of recreational trails, and seven historical sites.

4. OC Public Libraries

Serves diverse communities through knowledgeable and friendly staff who are trained in the latest technologies and tools offered at the library branches and website. These services enable library patrons to explore resources for leisure, learning, business, and community interaction.

The four programs are supported by **OCCR Administrative Services**. The function is responsible for administrative support activities, which include purchasing, facilities construction and maintenance, budget, accounting, information technology, organizational development, Agenda Staff Report coordination, and other support services. **OCCR Accounting**, an Auditor-Controller Satellite Accounting Unit, is responsible for providing specialized accounting services to OCCR. OCCR Accounting is responsible for preparing fee studies for OC Animal Care.

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. These fees require the Board of Supervisors' approval prior to charging the fees. The combined total for OCCR of the two fee types discussed below for FY 11-12 was about **\$21.4 million**.

1. **Licenses, Permits & Franchises.** (Code 0200; Revenue Source Codes 6330 – 6499). Some examples include animal license and park fees.
2. **Charges for Services.** (Code 0600; Revenue Source Codes 7200 – 7609). Some examples include animal feed and shelter fees, camping fees, and library fines.

OCCR Fees

OCCR maintains a listing of *Review of County Charges for Services* and *Review of County Fees Charged to the Public*. These two schedules (collectively referred to as the Fee Inventory) were prepared for FY 12-13 as part of the annual budget process. Budget staff in OC Parks and OC Public Libraries are responsible for fee development and preparing fee studies related to those divisions. For OC Animal Care, budget staff in OC Animal Care are responsible for fee development, and OCCR Accounting is responsible for preparing the fee studies.

OC Internal Auditor's Report



OCCR Fee Generated Revenue

Between July 1, 2011 and June 30, 2012, OCCR received the following amounts in fee generated revenue derived from Licenses, Permits and Franchises, and Charges for Services:

Program	Types of Fees	Amount	Percentage
OC Animal Care	Pet licenses, neuter/spay, kennel, business permits, exotic animals, vaccinations, disposal/quarantine.	\$ 14,403,036	67%
OC Parks	Park & recreation usage, camping, annual pass, zoo admission, construction permits.	4,468,244	21%
OC Community Services	Mandated fees related to Housing Assistance Program payments and related Court fees.	1,538,626	7%
OC Public Libraries	Fines for overdue or lost books, materials.	1,028,775	5%
TOTAL		\$21,438,681	100%

Cost Recovery Policies and Procedures

OCCR informed us at the onset of the audit that they are aware of the requirement for ensuring "full cost recovery" in developing its fees as required in County Accounting Manual (CAM) Procedure No. R-3: *Revenue Policy, Requirements & Responsibilities*. However, due to budgetary constraints and a perceived reluctance by the Board of Supervisors to raise fees in this economic environment, OCCR disclosed it does not fully recover costs in all fees, and does not submit annual fee studies to the Board of Supervisors as required CAM R-3. OCCR's most recent fee revisions submitted to the Board were in 2008 for OC Animal Care and 2010 for OC Parks. **Instead, OCCR's focus has not been to raise fees, but to live within the budgetary constraints and to keep costs contained within budgeted amounts.**

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."

Impact of State Proposition 26

In November 2010, Proposition 26 was passed by California voters. Proposition 26 requires that certain state and local fees be 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 July 1, 2011 through June 30, 2012, and included only **OC Animal Care, OC Parks, and OC Public Libraries**, which represent **93%** of OCCR fee generated revenue. Our scope and methodology included:

1. Evaluating 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 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 Procedure Nos. R-3 – *Revenue Policy, Requirements & Responsibilities*, and B-2 – *Billing Rates and Indirect Costs*, and the impact on fee development as a result of the recently passed State Proposition 26.
3. Evaluating the efficiency and effectiveness of the fee development process, such as for backlogs, duplication of work, or 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 evaluate the reasonableness of methodologies and assumptions used in the development of the fees.

Management's Responsibilities for Internal Controls

In accordance with the Auditor-Controller's County Accounting Manual Procedure, 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 OCCR's and OCCR Accounting'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 OCCR's and OCCR Accounting's operating procedures, accounting practices, and compliance with County policy.

Acknowledgment

We appreciate the courtesy extended to us by OC Community Resources and OCCR Accounting during our audit. If we can be of further assistance, please contact me directly at 834-5475 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
Robert J. Franz, Interim County Executive Officer
Mark Denny, Director, OC Parks
Ryan Drabek, Director, OC Animal Care
Helen Fried, County Librarian, OC Public Libraries
Karen Roper, Director, OC Community Services
Anna Peters, Director, OC Community Resources Administrative Services
Connie Chang, Budget Manager, OC Community Resources
Alan Young, Administrative Manager, OCCR Budget – OC Animal Care
Denise Steckler, Director, A-C Satellite Accounting Operations
Tonya Burnett, Senior Manager, OCCR Accounting
Win Swe, Manager, OCCR Accounting
Foreperson, Grand Jury
Susan Novak, Clerk of the Board of Supervisors



Audit Objective #1: Evaluate internal controls over fee development processes for 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 OCCR and County policies.

AUDIT STEPS AND RESULTS

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

- ✓ Obtained an understanding of OCCR's administration of the fee development process and related internal controls through interviews, review of documents, and completion of an *Internal Control Questionnaire* for fee generated revenue.
- ✓ Held meetings and conducted walkthroughs of the fee development process and controls with OCCR and OCCR Accounting staff responsible for departmental fee development.
- ✓ Evaluated the adequacy of OCCR fee development written policies and procedures.
- ✓ Evaluated the accuracy and completeness of OCCR's Fee Inventory listings provided to the CEO/Budget Office.
- ✓ Developed an assessment of internal controls and a testing approach to evaluate the adequacy of internal controls and processes.

CONCLUSION

We found that controls and processes over the administration and governance of fee development **are adequate** to ensure compliance with County revenue policy requirements. We identified **three (3) Control Findings** where improvements are needed, as discussed below.

Finding No. 1 – No Independent Desk Reviews of Fee Studies

Summary

Our audit found data entry and formula errors in support schedules used for the draft OC Animal Care fee study being prepared for FY 12-13. At the time of audit fieldwork, independent, detailed desk reviews of fee support schedules were not performed to detect data entry or formula errors. **(Control Finding)**

Details

We reviewed OC Animal Care's FY 12-13 fee study that is under development and noted the following three (3) data errors that were not detected in the fee study review process:

- An incorrect amount was used as the average salary of an Office Supervisor C in the calculation of Other Animal License Fees. This did not have an impact on the amount calculated for full-cost recovery.
- A formula error was made in calculating the "Reinspection Fee." The full-cost recovery amount for this fee was listed as \$248. The full-cost recovery amount should have been \$734.
- A formula error was made in calculating the "Cremation, Cat, Private Fee." The full-cost recovery amount for this fee was listed as \$69. The full-cost recovery amount should have been \$77.



We were informed that a high level review of the fee study was done; but due to resource constraints, a detailed desk review by a person other than who completed the fee study was not performed. As a result of the errors noted, OCCR Accounting decided to perform a complete independent desk review of the draft OC Animal Care fee study.

Because the OC Animal Care fee study consists of several fees, each with numerous support schedules containing detailed cost information to support the fee studies, an independent desk review should be performed, documented and retained as evidence of the review. The desk review by an individual not responsible for preparing or approving the fee schedules should validate the reported cost amounts to supporting sources and ensure all spreadsheet formulas and references are accurate.

Recommendation No. 1

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.

OC Community Resources Management Response:

Concur. OC Community Resources staff will work with Auditor-Controller Accounting staff to ensure that independent desk reviews will be completed on all future fee studies and supporting fee schedules. This revised process will be implemented immediately.

Auditor-Controller/OCCR Accounting Management Response:

Concur. All fee studies and supporting fee schedules prepared by Auditor-Controller OCCR Accounting staff will be reviewed by staff other than the one who completed the fee study and supporting schedules to ensure the validity and accuracy of data and amounts shown.

Finding No. 2 – Incomplete Fee Inventory Listings – OC Parks and OC Public Libraries

Summary

OCCR's Fee Inventory prepared for FY 12-13 during the annual budget process and submitted to the CEO/Budget Office listed some fees in error and some individual fees were grouped together.

(Control Finding)

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). We found the FY 12-13 Fee Inventory for OC Public Libraries listed different rates for three fee items which differed from rates approved by the Board of Supervisors in 1991 (see Finding 4 below). The FY 12-13 Fee Inventory submitted by OC Parks compiled individual fees into categories instead of listing each fee separately (e.g. Parks and Recreation fees listed once on the Fee Inventory represent several separate fees).

Without an accurate listing of individual fees charged by departments, OCCR and CEO/Budget will be unable to provide oversight of all County fees/charges for services to the public.

Recommendation No. 2

OCCR ensure its annual Fee Inventory provided to CEO/Budget is accurate, complete and lists individual fees.



OC Community Resources Management Response:

Concur. OC Community Resources staff will review and modify as applicable the annual Fee Inventory material provided to CEO/Budget to ensure it is accurate, complete and lists individual fees. Staff will complete this effort as part of the FY 2013-14 budget submittal process to CEO.

Finding No. 3 – No Fee Development Policies and Procedures – OC Parks and OC Public Libraries

Summary

OCCR does not maintain internal written policies and procedures for OC Parks' and OC Public Libraries' fee development processes, and could benefit from adopting fee development processes and procedures used in OCCR Accounting for OC Animal Care fee development. **(Control Finding)**

Details

OCCR does not maintain written internal policies and procedures for OC Parks' and OC Public Libraries' fee development processes. OCCR Accounting has developed an extensive fee development process and desk procedure for OC Animal Care describing the steps to be performed in conducting OC Animal Care fee studies.

It should be noted that prior to being a part of OCCR, Animal Care Services was administered for a period of time by the Health Care Agency. In a separate audit we conducted on Health Care Agency Fee Generated Revenue (Audit No. 1024), we found the Health Care Agency had "*well-structured and documented fee development process that can be considered a best practice for other County departments and agencies.*" OCCR Accounting incorporated the Health Care Agency's fee development process and procedures when developing fee study processes for OC Animal Care.

Similar policies and procedures should be developed for OC Parks and OC Public Libraries that include specific steps for tracking and monitoring fee studies, specific steps in conducting the fee study, and specific steps in preparing the related Fee Checklist. The Health Care Agency's fee development process and procedures incorporates these elements and should be considered when establishing written fee development procedures for OC Parks and OC Public Libraries.

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. 3

OCCR develop written policies and procedures governing the fee development process for OC Parks and OC Public Libraries.

OC Community Resources Management Response:

Concur. OC Community Resources staff will prepare written policies and procedures governing the fee development process. Staff will complete this by December, 2013.



Audit Objective #2: Evaluate for compliance with County Accounting Manual (CAM) 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 OCCR fee development and fee study process with CAM Procedure 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 OCCR and OCCR Accounting staff responsible for departmental fee development.
- ✓ Assessed OCCR’s compliance with County Accounting Manual procedures Nos. R-3, B-2, and Proposition 26 requirements.
- ✓ Conducted a 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, which included the following:
 1. Revised OC Parks Fee Schedule, Board Hearing Date: December 7, 2010.
 2. OC Public Libraries 2007 Fee Study (was not submitted to the Board of Supervisors). We also reviewed the last Board-approved fee study for the Public Libraries from 2002.
 3. OC Animal Care Fee Study (draft) for 2012. (To be submitted to the Board in 2013).

CONCLUSION

We found that controls and processes over the fee development process **are adequate**, with some exceptions, to ensure compliance with County policy requirements. OCCR disclosed it does not fully recover costs for all fees, and does not submit annual fee studies to the Board of Supervisors as required CAM Procedure R-3. OCCR did review its existing fees and charges and made a determination that all OCCR fees meet the exception to Proposition 26 definition of a “tax,” and is noted as such in the FY 12-13 Fee Inventory Listings. We identified **two (2) Control Findings** where improvements are needed, as discussed below.

Finding No. 4 – Compliance with Policy Requirements for Full-Cost Recovery and Frequency of Cost Recovery Rate Updates

Summary

OCCR informed us that all OCCR fees are not based on full cost recovery, and that OCCR did not perform annual fee studies or obtain approval to extend the fee studies timeframe to every three years as required by County policy. **(Control Finding)**

Details

CAM Procedure, 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.”

Detailed Results, Findings, Recommendations and Management Responses



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.”

It should be noted that OCCR management informed us at the onset of the audit that all OCCR fees are not full-cost recovery and that fee studies were not performed annually based on CAM Procedure R-3 requirements. Due to budgetary constraints and a perceived reluctance by the Board of Supervisors to raise fees in this economic environment, OCCR’s focus has not been to raise fees, but to keep costs contained within budgeted amounts. For each program, the most recent fee updates were:

1. **OC Parks** – OC Parks submitted a Fee Revision package that was approved by the Board of Supervisors in December 2010. The prior Fee Revision for was in 2004 (over six years).
2. **OC Public Libraries (OCPL)** – OCPL performed a fee study in 2007; however, a Fee Revision package was not submitted to the Board of Supervisors. OCPL last revised fees in 2002 (over 10 years). During the 2002 Fee Revision, only a limited number of fees were modified. Some fees have not been revised since either 1991 or 1995.
3. **OC Animal Care** – in 2010, OCCR Accounting performed a fee study for OC Animal Care. The fee study was not used to submit a Fee Revision to the Board of Supervisors. OC Animal Care fees were last revised in 2008. OC Animal Care is in the process of submitting a Fee Revision package to the Board of Supervisors for FY 12-13.

As a result, OCCR is not in full compliance with the requirement for annual cost-recovery updates. The policy does allow departments to request an extension to perform fee studies and updates every three years, but OCCR did not obtain written approval from the County Executive Office and Auditor-Controller.

Given that all OCCR fees are not based on full-cost recovery, our audit noted that OCCR clearly identifies in its fee documents that the fees are not full-cost recovery, including the Fee Inventory listing submitted to CEO/Budget Office during the annual budget process. Because OCCR adequately disclosed this in the Fee Inventory listing and related internal fee documents, checklists and ASRs we reviewed, and that the policy states fees should be full-cost recovery “whenever possible,” we are not making any recommendations concerning compliance with full-cost recovery.

Recommendation No. 4

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.

OC Community Resources Management Response:

Partially Concur. OC Community Resources fee for OC Animal Care, OC Parks and OC Public Libraries do not reflect a traditional cost-recovery model as set forth by the policy in CAM R-3.



While these fees are designed to comply with applicable State and County laws and policies, they are primarily intended to affect behaviors rather than obtain full cost recovery. They are also established in light of fees set forth for surrounding jurisdictions. Consequently, annual updates are not necessarily warranted. A three year review cycle for all three sets of fees will become the formal threshold and documented within the policies and procedures referenced in Recommendation No. 3. OC Community Resources staff will seek ratification of this exception and procedural approach from the Board of Supervisors for OC Animal Care, OC Parks and OC Public Libraries.

Finding No. 5 – Fee Study Methodology – OC Parks Not Using Actual Costs

Summary

OC Parks submitted a Fee Revision package for Board of Supervisors approval in December 2010. A detailed study of actual costs incurred by OC Parks was not performed to support the fee revision package; instead OCCR benchmarked fees charged by other counties. **(Control Finding)**

Details

CAM Procedure, B-2: *Billing Rates & Indirect Costs*, states:

“When allocating costs, calculating an indirect cost rate, or determining fees, costs are divided by an appropriate factor that is referred to as the base. Allocations and fees usually have bases related to the unit of work processed (e.g. one document) or the increment of service time (e.g. one productive hour) or the use of an item (e.g. miles driven or square footage)...direct costs are costs that can be readily identified with specific functions, jobs or activities. Examples include salaries and benefits of program staff, expenditures incurred specifically to carry out a program, and charge through a job cost accounting system to a billable work assignment.”

We reviewed OC Parks’ Fee Revision package submitted in December 2010 and noted that a detailed study of costs was not performed. A comparison of park fees was performed with other surrounding counties and cities and rates were adjusted accordingly.

As a result, there is non-compliance with this aspect of County policies and procedures, and OCCR’s costs of providing services may not be fully recovered in compliance with Board policy.

Recommendation No. 5

OCCR ensure OC Parks completes a fee study that incorporates actual costs incurred as support for its next fee revision.

OC Community Resources Management Response:

Partially Concur. As stated in the response to Recommendation No. 4, OC Community Resources fees for OC Animal Care, OC Parks and OC Public Libraries do not reflect a traditional cost-recovery model. They are primarily intended to affect behaviors rather than obtain full cost-recovery. They are also established in light of fees set forth for surrounding jurisdictions. Consequently, actual cost studies are not warranted for all fees. An overall review of actual costs vs. fees in total is recommended as part of the proposed three year review cycle. OC Community Resources staff will seek ratification of this exception and procedural approach from the Board of Supervisors for OC Animal Care, OC Parks and OC Public Libraries.



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

AUDIT STEPS AND RESULTS

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

CONCLUSION

We did not note any instances of backlogs, duplication of work or manual processes that could be automated in OCCR's fee development process, with the exception of not conducting annual cost recovery updates as discussed in Finding No. 4 above.

As such, we have no recommendations under this audit objective.



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 address Critical Control Weaknesses brought to their attention immediately.

▶ **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 Community Resources Management Responses



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INTERNAL AUDIT DEPARTMENT
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STEVE FRANKS
DIRECTOR
OC COMMUNITY RESOURCES

RYAN DRABEK
DIRECTOR
OC ANIMAL CARE

KAREN ROPER
DIRECTOR
OC COMMUNITY SERVICES

MARK DENNY
DIRECTOR
OC PARKS

HELEN FRIED
COUNTY LIBRARIAN
OC PUBLIC LIBRARIES

DATE: February 28, 2013
TO: Peter Hughes, Director, Internal Audit Department
FROM: Steve Franks, Director, OC Community Resources

SUBJECT: Response to Internal Control Audit of OC Community Resources Fee Generated Revenue

OC Community Resources has reviewed the Internal Control Audit of OC Community Resources Fee Generated Revenue (Audit No. 1222). Our response to the Audit Report is provided in the attachment.

If you have any questions, please contact me at 714-480-2788.

Attachment: OC Community Resources' Response to Audit Report

CEO Concurrence: _____

c: Robert Franz, Interim County Executive Officer
Frank Kim, Interim Chief Financial Officer



ATTACHMENT B: OC Community Resources Management Responses (continued)

OC Community Resources Response to Internal Control Audit: OC Community Resources Fee Generated Revenue (Audit No. 1222)

Recommendation No. 1

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.

OC Community Resources Management Response:

Concur. OC Community Resources staff will work with Auditor-Controller Accounting staff to ensure that independent desk reviews will be completed on all future fee studies and supporting fee schedules. This revised process will be implemented immediately.

Recommendation No. 2

OCCR ensure its annual Fee Inventory provided to CE/Budget is accurate, complete and lists individual fees.

OC Community Resources Management Response

Concur. OC Community Resources staff will review and modify as applicable the annual Fee Inventory material provided to CEO/Budget to ensure it is accurate, complete and lists individual fees. Staff will complete this effort as part of the FY 2013-14 budget submittal process to CEO.

Recommendation No. 3

OCCR develop written policies and procedures governing the fee development process for OC Parks and OC Public Libraries.

OC Community Resources Management Response

Concur. OC Community Resources staff will prepare written policies and procedures governing the fee development process. Staff will complete this process by December, 2013.

Recommendation No. 4

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.



ATTACHMENT B: OC Community Resources Management Responses (continued)

OC COMMUNITY RESOURCES RESPONSE TO INTERNAL CONTROL AUDIT:
OC COMMUNITY RESOURCES FEE GENERATED REVENUE (AUDIT NO. 1222)
PAGE 2 OF 2
FEBRUARY 26, 2013

OC Community Resources Management Response

Partially concur. OC Community Resources fees for OC Animal Care, OC Parks and OC Public Libraries do not reflect a traditional cost-recovery model as set forth by policy in CAM R-3. While these fees are designed to comply with applicable State and County laws and policies, they are primarily intended to affect behaviors rather than obtain full cost-recovery. They are also established in light of fees set forth for surrounding jurisdictions. Consequently, annual updates are not necessarily warranted. A three year review cycle for all three sets of fees will become the formal threshold and documented within the policies and procedures referenced in Recommendation No. 3. OC Community Resources staff will seek ratification of this exception and procedural approach from the Board of Supervisors for OC Animal Care, OC Parks and OC Public Libraries.

Recommendation No. 5

OCCR ensure OC Parks completes a fee study that incorporates actual costs incurred as support for its next fee revision.

OC Community Resources Management Response

Partially concur. As stated in the response to Recommendation No. 4, OC Community Resources fees for OC Animal Care, OC Parks and OC Public Libraries do not reflect a traditional cost-recovery fee model. They are primarily intended to affect behaviors rather than obtain full cost-recovery. They are also established in light of fees set forth for surrounding jurisdictions. Consequently, actual cost studies are not warranted for all fees. An overall review of actual costs vs. fees in total is recommended as part of the proposed three year review cycle. OC Community Resources staff will seek ratification of this exception and procedural approach from the Board of Supervisors for OC Animal Care, OC Parks and OC Public Libraries.



ATTACHMENT C: Auditor-Controller/OCCR Accounting Management Response



JAN E. GRIMES, CPA
CHIEF DEPUTY
AUDITOR-CONTROLLER

ORANGE COUNTY AUDITOR-CONTROLLER

HALL OF RECORDS
12 CIVIC CENTER PLAZA, ROOM 200
POST OFFICE BOX 567
SANTA ANA, CALIFORNIA 92702-0567

(714) 834-2450 FAX: (714) 834-2569

www.ac.ocgov.com

PHILLIP T. DAIGNEAU
DIRECTOR
INFORMATION TECHNOLOGY

FRANK DAVIES, CPA
DIRECTOR
PROPERTY TAX

VICTORIA ROSS, CPA
DIRECTOR
CENTRAL ACCOUNTING OPERATIONS

DENISE STECKLER
DIRECTOR
SATELLITE ACCOUNTING OPERATIONS

February 20, 2013

To: Mike Goodwin
Internal Audit

From:  Jan Grimes
Chief Deputy Auditor-Controller

Subject: Auditor-Controller Response to Internal Control Audit No. 1222 – OCCR Fee Generated Revenue

Finding No. 1 – No Independent Desk Reviews of Fee Studies

Recommendation No. 1

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.

Auditor-Controller/OCCR Accounting Management Response:

Concur. All fee studies and supporting fee schedules prepared by Auditor-Controller OCCR Accounting staff will be reviewed by staff other than the one who completed the fee study and supporting schedules to ensure the validity and accuracy of data and amounts shown.

If you have any questions about the response please contact Tonya Burnett, A/C OCCR Satellite Accounting Manager at Tonya.Burnett@occr.ocgov.com.

Thank you.