

Internal Audit Department

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

SECOND FOLLOW-UP INTERNAL CONTROL AUDIT:

OC PUBLIC WORKS FEE GENERATED REVENUE

AS OF FEBRUARY 28, 2014

Our Second Follow-Up Audit found that OC Public Works (OCPW) fully implemented three (3) of the four (4) remaining recommendations from our original audit report containing ten (10) recommendations. One (1) recommendation remains in process. Previously, six (6) recommendations were implemented and four (4) were in-process in our First Follow-Up audit report dated June 4, 2013.

During the original audit period, 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.

AUDIT No: 1022-F2
(REFERENCE 1340)
ORIGINAL AUDIT No. 1022

REPORT DATE: APRIL 9, 2014

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Senior Audit Manager: Michael Goodwin, CPA, CIA
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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

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OC Fraud Hotline (714) 834-3608

Letter from Dr. Peter Hughes, CPA

Transmittal Letter



Audit No. 1022-F2 April 9, 2014

TO: Shane L. Silsby, P.E., Director
OC Public Works

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

SUBJECT: Second Follow-Up Internal Control Audit:
OC Public Works Fee Generated Revenue,
Original Audit No. 1022, Issued September 7,
2012

We have completed a Second Follow-Up Internal Control Audit of OC Public Works Fee Generated Revenue. Our audit was limited to reviewing, as of February 28, 2014, actions taken to implement the **four (4) remaining recommendations** from our First Follow-Up Audit report dated June 4, 2013. We conducted this Second Follow-Up Audit in accordance with the *FY 13-14 Audit Plan and Risk Assessment* approved by the Audit Oversight Committee and Board of Supervisors (BOS).

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 Public Works **fully implemented three (3) of the four (4) remaining recommendations. One (1) recommendation remains in process.**

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. **Because there is one (1) recommendation still in process, OCPW will be asked to report the status of the open recommendation at a future AOC meeting.**

Other recipients of this report are listed on the **OC Internal Auditor's Report** on page 5.

Table of Contents



***Second Follow-Up Internal Control Audit:
OC Public Works Fee Generated Revenue
Audit No. 1022-F2***

As of February 28, 2014

Transmittal Letter	i
OC Internal Auditor's Report	1

OC Internal Auditor's Report



Audit No. 1022-F2

April 9, 2014

TO: Shane L. Silsby, P.E., Director
OC Public Works

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

SUBJECT: Second Follow-Up Internal Control Audit: OC Public Works Fee Generated Revenue, Original Audit No. 1022, Issued September 7, 2012

Scope of Review

We have completed a Second Follow-Up Audit of OC Public Works (OCPW) Fee Generated Revenue. Our audit was limited to reviewing actions taken, as of February 28, 2014, to implement the **four (4) recommendations** remaining from our First Follow-Up Audit report dated June 4, 2013.

Background

We conducted an Internal Control Audit of OC Public Works Fee Generated Revenue, which evaluated internal controls, testing compliance with County and OCPW policies, and evaluating process efficiencies and effectiveness. The original audit identified **one (1) Critical Control Weakness** and **nine (9) Significant Control Weaknesses** to improve controls regarding fee development processes, policies & procedures, and compliance with County policy. Several findings identified in the original audit were the result of a lack of resources in OCPW Finance.

Results

Our Second Follow-Up Audit found OCPW took satisfactory corrective action to **implement three (3) of the four (4) remaining recommendations. One (1) recommendation remains in process.** Based on our two Follow-Up Audits, the following is the implementation status of the ten (10) recommendations from the original audit report. The item number from the original audit report is shown before each heading.

1. **No Formalized Fee Study Monitoring Process (Critical Control Weakness)**

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

Current Status: Implemented (Second Follow-Up Audit). Our First Follow-Up Audit found that OCPW developed a *Fee/Rate Study Plan and Reference Guide*, which includes a section on tracking and monitoring fee study due dates, and was in the process of developing a Fee Study Tracking Database.

Our Second Follow-Up Audit found that OCPW completed and implemented the Fee Study Tracking Database, which contains all OCPW fees/rates for tracking/monitoring purposes and generates automated weekly reports to identify fees/rates due for revision. This application went live on July 1, 2013. We determined that measures were taken to ensure the database is complete, contains relevant supporting documentation and is generating relevant monitoring reports. The application also generates a Fee Review Aging report which is also a work plan that sets a timeline for future Fee/Rate studies.



Since OCPW has created policies and procedures for monitoring and tracking fee studies and has developed a database as a management tool for tracking fee studies due for review, we consider this recommendation implemented.

2. **Undefined/Miscellaneous Revenue (Significant Control Weakness)**

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.

Current Status: Implemented (Second Follow-Up Audit). Our First Follow-Up Audit found that OCPW Accounting worked to identify and reduce the amount of undefined/miscellaneous revenue from \$12 million to approximately \$2.8 million as of March 31, 2013. In addition, OCPW Accounting developed procedures for future quarterly monitoring and managing of undefined/miscellaneous revenue, beginning June 30, 2013.

Our Second Follow-Up Audit found that OCPW implemented quarterly monitoring of undefined/miscellaneous revenue and worked to identify and reduce the amount of undefined/miscellaneous revenue to approximately \$715,000 as of September 30, 2013. The amount of undefined/miscellaneous revenue fluctuates from quarter to quarter and OCPW continues to monitor and identify the nature and source of the revenue deposits. We noted there was a significant increase in undefined/miscellaneous revenue since September 2013 (from \$715,000 to \$3 million); however, OCPW Accounting is aware of the increase, which is from internal billings, and will make the necessary adjustments by the end of the fiscal year.

Since OCPW Accounting has created a procedure to research and resolve undefined revenue and is monitoring and identifying undefined revenue on a quarterly basis, we consider this recommendation implemented.

3. **Incomplete Fee Inventory Listing (Significant Control Weakness)**

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

Current Status: Implemented (First Follow-Up Audit). OCPW's Fee Inventory was updated and corrected after the 2012 submission. The updating of the annual Fee Inventory has been incorporated into the OCPW's Budget calendar to allow time for a comprehensive review prior to submission to CEO/Budget. In our Follow-Up Audit, we obtained OCPW's Fee Inventory submitted to the CEO in March 2013. We tested a sample of fees that were noted to be in error in the original audit. Our testing found that fees noted as duplicate, missing or listed in error were removed from the 2013 Fee Inventory. As discussed in Finding #1 above, OCPW implemented a Fee Study Tracking Database which is used to compile and generate the annual Fee Inventory Listing.

Because OCPW took adequate action to address the noted corrections in the Fee Inventory Listing and implemented a database that will generate future Fee Inventory Listings, we consider this recommendation implemented.



4. **Fee Study Review/Approval Not Documented (Significant Control Weakness)**

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

Current Status: Implemented (First Follow-Up Audit). OCPW's *Fee/Rate Study Plan and Reference Guide* includes a section on documenting the preparation, review and approval of fee studies. We reviewed one fee study (Sewer Fee County Service Area 13) submitted to the Board for approval in July 2012 (there have been no other new fees or fee revisions since July 2012). We obtained documentation consisting of email correspondence showing the preparation, review and approval of the fee study was completed. Because the one new fee reviewed included evidence of preparation, review and approval, and OCPW has created procedures requiring documentation of preparation, review and approval, we consider this recommendation implemented.

5. **Fee Study Policies/Procedures Need Enhancement (Significant Control Weakness)**

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

Current Status: Implemented (First Follow-Up Audit). OCPW developed a *Fee/Rate Reference Plan and Guide* based on HCA's policies and procedures. (In a prior audit of HCA Fee Generated Revenue – Audit No.1024, we cited HCA's fee development process as a best practice for other County departments and agencies.) OCPW's written procedures are based on HCA's policies and procedures, and now include sections on tracking and monitoring fee study dates, specific steps to perform fee studies, and specific steps to complete Fee Checklists. Included within the guide is OCPW Procedure "Fees – Authorizing New or Revising Existing" (No. 1.6.104). This policy was revised in March 2013 and includes instructions for fee studies and completing Fee Checklists. Because OCPW has enhanced written policies and procedures governing the fee development process, we consider this recommendation implemented.

6. **Frequency Not in Compliance with County Policy (Significant Control Weakness)**

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

Current Status: In Process (Second Follow-Up Audit). Our First Follow-Up Audit found that OCPW took corrective action by updating its policy and procedure "Fees – Authorizing New or Revising Existing" to state that all fees should be updated on an annual basis. We also noted that OCPW revised their manual tracking Fee Log to ensure its accuracy and completeness while in the process of implementing a Fee Study Tracking Database. The Fee Log includes a column for "Date of Last Fee Study." Based on review of the log, 99 of 100 fees had not been updated in more than one year.

Our Second Follow-Up Audit found that OCPW implemented the Fee Study Tracking Database effective July 1, 2013, which contains all fees/rates for tracking/monitoring purposes and generates automated weekly reports to identify fees/rates due for revision. In addition, OCPW hired a Fee Analyst on July 1, 2013 and temporary Staff Assistant on February 10, 2014 to help maintain the Fee Study Tracking Database, monitor fees, and perform the fee studies. We were informed that OCPW has several fee studies in progress, but none have been completed since our last audit. Because there are still several fees that have not been updated within one year, we consider this recommendation in process.



OCPW Planned Action:

A new Fee Analyst and Staff Assistant were hired to conduct fee studies and they are in process of updating various fee studies including the Planning Fees, Material Lab rates, Agricultural Commissioner Weights and Measures Fees, and the La Mirada Sewer Fee. The completion of the various fee studies needs to reflect the recent department-wide reorganization, which will have an impact on costs and fees. Many of these fee studies are anticipated to be completed within the next six months.

7. **Adherence To Full Cost Recovery Policy** (Significant Control Weakness)

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.

Current Status: **Implemented (First Follow-Up Audit).** We reviewed one revised fee submitted to the Board for approval in July 2012 (there have been no other new fees or fee revisions since July 2012). The revised fee included CWCAP and other indirect costs in allocations of overhead on the Fee Checklist. In addition, OCPW's newly created *Fee/Rate Study Plan and Reference Guide* now includes a requirement for including CWCAP and other indirect costs in allocations of overhead. Since the one new fee reviewed included CWCAP and other indirect costs in the allocation of overhead, and OCPW created procedures requiring CWCAP and other indirect costs to be included in the allocation of overhead, we consider this recommendation implemented.

8. **Adherence To Full Cost Recovery Policy** (Significant Control Weakness)

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.

Current Status: **Implemented (First Follow-Up Audit).** We reviewed one revised fee submitted to the Board for approval in July 2012. The revised fee amount indicated it fully recovered costs. In addition, OCPW recently revised procedure "Fees – Authorizing New or Revising Existing" now includes a section regarding obtaining full cost recovery, or obtaining CEO written approval when full cost recovery is not obtained, and clearly disclosing to the Board on ASRs when full cost recovery is not obtained. Since the one new fee reviewed indicated full cost-recovery, and since OCPW has created procedures requiring either (1) full cost recovery or (2) approval from the CEO and disclosure to the Board when full cost recovery is not obtained, we consider this recommendation implemented.

9. **Adherence To Full Cost Recovery Policy** (Significant Control Weakness)

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

Current Status: **Implemented (Second Follow-Up Audit).** Our First Follow-Up Audit found that OCPW revised their fee policy to require that documentation supporting the Fee Checklist be sufficiently detailed showing costs and revenues per fee or service. OCPW included sufficient detailed supporting documentation listing costs and revenues per fee in a revised fee submitted to the Board for approval in July 2012.



Our Second Follow-Up Audit found that OCPW is in the process of performing several fee studies since our last audit, including Building & Safety Fees, Agricultural Weights & Measures Device Fees, and the La Mirada Sewer Fee. OCPW is preparing supporting documentation detailing costs and revenue per fee or service, and will do so for all future fee studies. However, no fee studies have been submitted to the BOS for approval. Since OCPW implemented procedures requiring costs and revenues to be listed for each fee and they intend to provide detailed supporting documentation to accompany future Fee Checklists, we consider this recommendation implemented.

10. **Resources Impact on Fee Development Process (Significant Control Weakness)**

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.

Current Status: Implemented (First Follow-Up Audit). OCPW evaluated the adequacy of staffing and resources and determined the need to hire a Fee Analyst. The Fee Analyst was hired in December 2012 and was promoted to Budget Manager. (Note: The Fee Analyst position was vacant during our First Follow-Up Audit, but was subsequently filled on July 1, 2013. Also, on February 10, 2014, an extra help staff assistant was hired to support the Fee Analyst.) The OC Public Works Budget Manager also had several meetings with the Health Care Agency Revenue Unit. As a result, OC Public Works created a *Fee/Rate Study Plan and Reference Guide* based upon the Health Care Agency's policies and procedures.

Since OC Public Works evaluated the adequacy of staffing and resources allocated for administration of the fee development process, consulted with the Health Care Agency for ideas in implementing some of its best practices for fee development, and currently has staffing resources to address fee studies, we consider this recommendation implemented.

We appreciate the assistance extended to us by OC Public Works and OC Public Works Accounting staff during our 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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