

Internal Audit Department

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

FIRST FOLLOW-UP INTERNAL CONTROL AUDIT:

OC COMMUNITY RESOURCES FEE GENERATED REVENUE

AS OF NOVEMBER 25, 2013

Our First Follow-Up Audit found that OC Community Resources has four (4) recommendations in process and one (1) recommendation is not yet implemented from our original audit report dated March 5, 2013.

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

AUDIT NO: 1222-F1
(REFERENCE 1339)
ORIGINAL AUDIT NO. 1222

REPORT DATE: JANUARY 28, 2014

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



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

To access and view audit reports or obtain additional information about the OC Internal Audit Department, visit our website: www.ocgov.com/audit



OC Fraud Hotline (714) 834-3608



Transmittal Letter



Audit No. 1222-F1 January 28, 2014

TO: Steve Franks, Director
OC Community Resources

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

SUBJECT: First Follow-Up Internal Control Audit:
OC Community Resources Fee Generated
Revenue, Original Audit No. 1222, Issued
March 5, 2013

We have completed a First Follow-Up Internal Control Audit of OC Community Resources Fee Generated Revenue. Our audit was limited to reviewing, as of November 25, 2013, actions taken to implement the **five (5) recommendations** from our original audit report dated March 5, 2013. We conducted this First 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 First Follow-Up Audit are discussed in the **OC Internal Auditor's Report** following this transmittal letter. Our First Follow-Up Audit found that OC Community Resources has **four (4) recommendations in process** and **one (1) recommendation is not yet implemented** from our original audit report. A Second Follow-Up Audit will be conducted approximately six months from the date of this report on the five remaining recommendations.

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.

Other recipients of this report are listed on the **OC Internal Auditor's Report** on pages 4 and 5.

Table of Contents



*First Follow-Up Audit
OC Community Resources
Fee Generated Revenue
Audit No. 1222-F1*

As of November 25, 2013

Transmittal Letter	i
OC Internal Auditor's Report	1

OC Internal Auditor's Report



Audit No. 1222-F1

January 28, 2014

TO: Steve Franks, Director
OC Community Resources

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

SUBJECT: First 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 First Follow-Up Audit of OC Community Resources (OCCR) Fee Generated Revenue. Our audit was limited to reviewing actions taken, as of November 25, 2013, to implement the **five (5) recommendations** from our original audit report.

Background

We conducted an Internal Control Audit of OC Community Resources' 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, OC Community Resources 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 First Follow-Up Audit indicated OCCR has **four (4) recommendations in process** and **one (1) recommendation is not yet implemented**. Based on our First Follow-Up Audit, the following is the implementation status of the five (5) original recommendations:

1. No Independent Desk Reviews of Fee Studies

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: **In Process.** During the original audit, it was noted that OC Animal Care's fee study was under development and contained some data input errors that were not detected in the fee study review process. In response to our finding, both OCCR and OCCR Accounting concurred and indicated independent desk reviews will be completed on all future fee studies. OCCR Accounting corrected the three data errors and an independent and detailed desk review was completed on the corrected fee support schedules.

Our First Follow-Up found that OCCR has not prepared any other fee studies since the original audit. We also found that OCCR drafted policies and procedures for the fee development process; however, the draft procedures did not describe a requirement for an independent desk review of completed fee studies.



In addition, OCCR Accounting informed us they may not be assisting with fee studies because that responsibility is not included in their MOU with OCCR. Because we did not see any written documentation for performing independent desk reviews in OCCR or OCCR Accounting's procedures, we consider this recommendation in process. OCCR should also define responsibility for monitoring and conducting OCCR fee studies, which should be incorporated into its fee study policy and procedures under Recommendation No. 3 below.

To work towards implementation, OCCR should include in its fee study policy and procedures a requirement to conduct and document independent desk reviews of completed OCCR fee studies. OCCR should also designate department responsibility for monitoring and preparing OCCR fee studies and incorporate into the fee study policy and procedures.

OCCR Response/Planned Action:

Concur. OC Community Resources (OCCR) will revise its policies and procedures, adding language requiring Budget staff to perform an independent desk review on all OCCR fee studies. In the event that Budget staff prepare a given fee study, the Business Practices group will then perform the necessary independent desk review. In addition, in any future MOUs with the County Auditor-Controller for the preparation of a fee study, language will be included requiring that an independent desk review be performed by OCCR Budget or Business Practices staff. OC Community Resources anticipates completing the relevant policies and procedure revisions by end of April 2014.

2. Incomplete Fee Inventory Listings – OC Parks and OC Public Libraries

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

Current Status: In Process. During the original audit, it was noted that OCCR's FY 12-13 Fee Inventory contained three rates for OC Public Libraries that were different from the Board-approved rates in 1991, and certain fees for OC Parks were grouped together and did not include the fee amounts (e.g., park and recreation fees, camping fees).

During our First Follow-Up, OCCR provided Internal Audit a Board Resolution that approved OC Public Libraries' fee updates in 1995. The Board Resolution supported the three rates that were cited in the original audit and shown on the Fee Inventory. As such, that part of the finding has been closed.

OCCR submitted its annual Review of County Fees Charged to the Public (Fee Inventory) as part of the FY13-14 budget submission. Our review of FY13-14 Fee Inventory for OC Parks was not revised to show the fees and to list certain fees separately, such as "Park and Recreation Fees" and "Camping Fees." Inquires with the CEO/Budget Office found that the expectation is to show the fee amount and list them separately. Because the Fee Inventory for OC Parks needs to be updated, we consider this recommendation in process. To work towards implementation, OCCR should list out individual fees for OC Parks in the next submission of OCCR's Fee Inventory.

OCCR Response/Planned Action:

Concur. OCCR will update the department's annual Fee Inventory Worksheet to include additional detail about the fees charged to the public, by OC Parks, as part of the FY14-15 budget process (due in March 2014). In 1995, OC Public Library received a Board of Supervisor authorization to revise several of its fees including the three (3) fees noted by the Internal Audit Department.



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

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

Current Status: **In Process.** OCCR drafted a one-page policy and procedure for the fee development process. Our review of the draft policy and procedure found it does not indicate responsibility for tracking and performing fee studies; does not provide a methodology for conducting full-cost and non-full cost fee studies; are not detailed to provide guidance to staff and management in tracking and conducting fee studies; and have not been finalized and approved by management. The draft policy and procedure state that OCCR's fee development processes do not necessarily follow the traditional cost-recovery fee models for OC Parks, OC Libraries, and for certain fees in OC Animal Care.

The draft policy also states that annual updates are not warranted and has come up with intervals of three years to conduct fee studies. Since the policies and procedures were draft and lacked details that would enable new or current employees to track or complete fee studies, we consider this recommendation in process.

To work towards implementation, OCCR should define overall responsibility for tracking and conducting fee studies, establish sufficient written procedures to guide staff and management to perform fee studies for full-cost and non-full cost fees, and obtain management approval of the policy and procedures. To assist OCCR, we provided copies of fee development procedures from two County of Orange departments as examples.

OCCR Response/Planned Action:

Concur. OCCR is in the process of developing policies and procedures regarding the development of revenue generating fees. The new policies and procedures will include language that guides both staff and management in performing fee studies for both full and partial cost recovery, independent reviews, and submission to the CEO Office. OC Community Resources anticipates completing the relevant policies and procedure revisions by end of April 2014.

4. **Compliance with Policy Requirements for Full-Cost Recovery and Frequency of Cost Recovery Rate Updates**

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: **Not Yet Implemented.** Because OCCR has fees in OC Parks, OC Libraries, and certain fees in OC Animal Care that are not subject to traditional full-cost recovery as required in the County Revenue Policy, it intends to benchmark fees with other surrounding jurisdictions as opposed to preparing a detailed, annual study of actual costs incurred to support the fees. As stated in Finding No. 3, OCCR developed a policy to study the non-traditional fees every three years instead of annually. OCCR plans to request an exemption from the County Executive Office for full-cost recovery and frequency of cost recovery rate updates; however, at the time of our First Follow-Up, a waiver request has not been submitted to the County Executive Officer and Auditor-Controller as allowed by current County policy. Since a waiver has not been submitted and granted from the policy requirements for full-cost recovery and frequency of cost recovery rate updates, we consider this recommendation not yet implemented.



To work towards implementation, OCCR should document their reasons and justification for an exemption from CAM R-3 for the fees that are not considered full-cost recovery, and submit an exemption request to the County Executive Office and Auditor-Controller.

OCCR Response/Planned Action:

Concur. OC Community Resources will notify the CEO's office, regarding all Department fees, in March 2014 as part of the FY 14-15 budget process.

5. Fee Study Methodology – OC Parks Not Using Actual Costs

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

Current Status: In Process. As noted above, OCCR does not consider OC Parks fees to be based on full-cost recovery requirements, and intends to benchmark fees with other surrounding jurisdictions as opposed to preparing a detailed study of actual costs incurred to support the fees. OCCR plans to request an exemption from preparing a detailed study of actual costs incurred to support the fees for OC Parks but a waiver has not been submitted to the County Executive Officer and Auditor-Controller.

Since OCCR has drafted a policy on fees that are not based on full-cost recovery, and waiver has not yet been submitted and granted from the policy requirements for preparing a fee study that incorporates actual costs incurred as support for OC Parks' fees, we consider this recommendation in process.

To work toward implementation, OCCR should document their reasons and justification for exempting OC Parks fees from annual fee studies, update its fee study policy and procedures, and submit an exemption request to the County Executive Office and Auditor-Controller, as indicated in Finding Nos. 3 and 4 above.

OCCR Response/Planned Action:

Concur. Although OC Parks' fees are not based on full cost recovery, OC Community Resources will notify the CEO's office regarding its Revenue Generating Fees in March 2014, as part of the FY 14-15 budget process.

We appreciate the assistance extended to us by OC Community Resources personnel 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:

Members, Board of Supervisors
Members, Audit Oversight Committee
Michael B. Giancola, County Executive Officer
Mark Denny, Chief Operating Officer
Mike Kerr, Assistant to the Chief Operating Officer
Frank Kim, Chief Financial Officer
Michelle Aguirre, Director, CEO/County Budget Office
Stacy Blackwood, Director, OC Parks

OC Internal Auditor's Report



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
Brian Probolsky, Business Practices Manager, OC Community Resources
Connie Chang, Budget Manager, OC Community Resources
Denise Steckler, Chief Deputy Auditor-Controller
Tonya Burnett, Director, A-C Satellite Accounting Operations
Salvador Lopez, Senior Manager, OCCR Accounting
Foreperson, Grand Jury
Susan Novak, Clerk of the Board of Supervisors
Macias Gini & O'Connell LLP, County External Auditor