

# Internal Audit Department

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

## FIRST FOLLOW-UP INTERNAL CONTROL AUDIT:

### OC PUBLIC WORKS FEE GENERATED REVENUE

AS OF MARCH 31, 2013

Our First Follow-Up Audit found that OC Public Works fully implemented six (6) recommendations, and four (4) recommendations are in process of implementation from our original audit report dated September 7, 2012.

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: 1227-C  
ORIGINAL AUDIT NO. 1022

REPORT DATE: JUNE 4, 2013

**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



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



**OC Fraud Hotline (714) 834-3608**

# Letter from Dr. Peter Hughes, CPA

## Transmittal Letter



**Audit No. 1227-C June 4, 2013**

**TO:** Ignacio Ochoa, Interim Director  
OC Public Works

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

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

We have completed a First Follow-Up Audit of OC Public Works Fee Generated Revenue. Our audit was limited to reviewing, as of March 31, 2013, actions taken to implement the **ten (10) recommendations** from our original audit. We conducted this First Follow-Up Audit in accordance with the *FY 12-13 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 OC Public Works **fully implemented six (6) recommendations and four (4) recommendations are in process of implementation.**

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 page 6.

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OC Public Works  
Fee Generated Revenue  
Audit No. 1227-C*

As of March 31, 2013

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# OC Internal Auditor's Report



Audit No. 1227-C

June 4, 2013

TO: Ignacio Ochoa, Interim Director  
OC Public Works

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

For

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

## Scope of Review

We have completed a First Follow-Up Audit of OC Public Works' Fee Generated Revenue process. Our audit was limited to reviewing actions taken, as of March 31, 2013, to implement the **ten (10) recommendations** from our original audit report.

## Background

We conducted an Internal Control Audit of OC Public Works' Fee Generated Revenue process, which included an evaluation and testing of internal controls and compliance with OC Public Works' and County policies, and evaluating process efficiencies and effectiveness. During the audit period, OC Public Works (OCPW) 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.

The original audit identified **one (1) Critical Control Weakness** and **nine (9) Significant Control Weaknesses** to improve controls with regards to fee development processes, policies, procedures and compliance with County policy. Several of the findings identified were the result of a lack of resources in OCPW Finance.

## Results

Our First Follow-Up Audit found OC Public Works **fully implemented six (6) recommendations and four (4) recommendations were in process of implementation**. Based on our First Follow-Up Audit, the following is the implementation status of the ten original recommendations:

### 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: In Process.** OC Public Works hired a Fee Analyst in December 2012 who was subsequently promoted to Budget Manager. The Budget Manager worked with Health Care Agency budget staff regarding its fee development process. OC Public Works subsequently developed a *Fee/Rate Study Plan and Reference Guide*, which is modeled after the Health Care Agency's policies and procedures. The *Fee/Rate Study Plan and Reference Guide* includes a section on tracking and monitoring fee study due dates. OC Public Works is also in process of developing a Fee Study Tracking Database. The fee study database will contain all OCPW fees/rates for tracking/monitoring purposes and will print an aging report to identify fees/rates for revision. Until the database project is completed, a manual log is in place to identify, track and monitor various OCPW fees/rates.



Since OC Public Works has hired a Budget Manager, created policies and procedures regarding tracking of fee studies for review and is in process of developing a database to track and monitor fee studies due for review, we consider this recommendation **in process**.

Planned Action:

OC Public Works plans to complete its Fee Study Tracking Database implementation in the next few months and use the database to track and monitor fee studies due for review.

## 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: In Process. OC Public Works Accounting has been working to identify and reduce the amount of undefined revenue. Undefined revenue is revenue without identified Department Revenue Source Codes. During the original audit, we noted \$12 million as undefined revenue. As of March 31, 2013, the amount of undefined revenue was reduced to approximately \$2.8 million.

OC Public Works Accounting identified that undefined/miscellaneous revenue transactions result from CAPS+ automated job billings and interface journal vouchers lacking the Department Revenue Source Codes. OC Public Works and OC Public Works Accounting have created procedures regarding the identification of undefined revenue. OC Public Works Accounting's procedure states that Accounting staff will research and resolve undefined revenue on a quarterly basis beginning June 30, 2013.

Since the amount of undefined revenue has decreased but still exists, and since OC Public Works Accounting has created a procedure to research and resolve undefined revenue on a quarterly basis beginning June 30, 2013, we consider this recommendation **in process**.

Planned Action:

OC Public Works Accounting plans to research and resolve undefined revenue on a quarterly basis beginning June 30, 2013.

## 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. OC Public Works' Fee Inventory was updated and corrected after the 2012 submission. The updating of the annual Fee Inventory has been incorporated into the OC Public Works' Budget calendar to allow time for a comprehensive review prior to submission to CEO/Budget. In our Follow-Up Audit, we obtained OC Public Works' 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. Also, as discussed in Finding #1 above, OC Public Works is in the process of developing a Fee Study Tracking Database. Once implemented, the database will be used to compile and generate the annual Fee Inventory Listing.



Because OC Public Works took adequate action to address the noted corrections in the recently submitted Fee Inventory Listing, and is implementing 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.** OC Public Works' newly created *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. In addition, OC Public Works is developing a Fee Study Tracking Database and a comprehensive filing system that when implemented will document the preparation and review process electronically. Because the one new fee reviewed included evidence of preparation, review and approval, and OC Public Works has created procedures requiring documentation of preparation, review and approval, we consider this recommendation **implemented**.

**5. Fee Development Policies and Procedures Need Enhancement**

**(Significant Control Weakness)** OCPW enhance written policies and procedures governing the fee development process.

Current Status: **Implemented.** As discussed above, OC Public Works has developed a *Fee/Rate Reference Plan and Guide* based on the Health Care Agency'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.) OC Public Works' 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 OC Public Works Procedure "Fees – Authorizing New or Revising Existing" (No. 1.6.104). This policy was revised in March 2013 and includes instructions for performing fee studies and completing Fee Checklists. Because OC Public Works has enhanced written policies and procedures governing the fee development process, we consider this recommendation **implemented**.

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

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

Current Status: **In Process.** OC Public Works hired a Fee Analyst who was subsequently promoted to Budget Manager. The Budget Manager revised the OC Public Works' Fee Log to ensure its accuracy and completeness. A manual Fee Log is being maintained until the Fee Study Tracking Database is implemented. The Fee Log includes a column for "Date of Last Fee Study." Based on review of the log, 99 of 100 fees have not been updated in more than one year.



Other corrective actions taken included updating its “Fees – Authorizing New or Revising Existing” policy and procedure to state that all fees should be updated on an annual basis. OC Public Works is in the process of creating a Fee Study Tracking Database. Once implemented, the database will be able to generate aging reports showing fee studies due for review. OC Public Works also wants to hire a Fee Analyst and is working with Human Resource Services toward that goal. Because there are still several fees that have not been updated within one year; and since the database is not yet implemented, we consider this recommendation **in process**.

Planned Action:

OC Public Works plans to complete its Fee Study Tracking Database implementation in the next few months and use the database to identify fee studies due for review in order to ensure fee studies are updated in compliance with County policies and procedures.

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.** 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, OC Public Works 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 since OC Public Works has 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.** 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, OC Public Works recently revised *Fees – Authorizing New or Revising Existing* procedure 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 OC Public Works 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: **In Process.** We reviewed one revised fee submitted to the Board for approval in July 2012. The supporting documentation for the revised fee amount listed costs and revenues. In addition, OC Public Works recently revised *Fees – Authorizing New or Revising Existing* procedure now includes a requirement for including the dollar amount and percentage change to each fee on the fee study.

The original audit finding related to fees included in the Building and Planning Fee Ordinance. There are over 40 fees in the Ordinance. OC Public Works management informed us they plan to revise the Ordinance this upcoming Fall and that supporting documentation would be included to show costs and revenues for the individual fees in the Ordinance.

The one new fee we reviewed appropriately listed related costs and revenues, and OC Public Works created procedures requiring costs and revenues to be listed for each fee. Since the revised Building and Planning Fee Ordinance has not yet been submitted, we consider this recommendation **in process**.

Planned Action:

OC Public Works plans to review the Building and Planning Fee Ordinance in the Fall of 2013 and submit any necessary revisions to the Board of Supervisors. OC Public Works will ensure costs and revenues are identified for each fee in the Ordinance.

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.** OC Public Works 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. The Fee Analyst position is currently vacant; however, OC Public Works is currently working with Human Resource Services to conduct a recruitment for this position. 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, and consulted with the Health Care Agency for ideas in implementing some of its best practices for fee development, we consider this recommendation **implemented**.

# OC Internal Auditor's Report



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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Frank Kim, Chief Financial Officer  
Mary Fitzgerald, Director, OCPW Administrative Services  
Randi Dunlap, Manager, OCPW Administrative Services  
Athena Cumberland, Manager, OCPW Budget  
Howard Thomas, Manager, OCPW Accounting Services  
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