



INTERNAL AUDIT DEPARTMENT



Internal Control Audit: OC Community Resources Fee-Generated Revenue

For the Year Ended September 30, 2021

Audit No. 2112

Report Date: September 15, 2022

Number of Recommendations

0

**Critical Control
Weaknesses**

0

**Significant Control
Weakness**

2

Control Findings

OC Board of Supervisors

CHAIRMAN DOUG CHAFFEE
4th DISTRICT

VICE CHAIRMAN DONALD P. WAGNER
3rd DISTRICT

SUPERVISOR ANDREW DO
1st DISTRICT

SUPERVISOR KATRINA FOLEY
2nd DISTRICT

SUPERVISOR LISA A. BARTLETT
5th DISTRICT



INTERNAL AUDIT DEPARTMENT

Internal Control Audit: OC Community Resources Fee-Generated Revenue

September 15, 2022

AUDIT HIGHLIGHTS

SCOPE OF WORK	Perform an internal control audit of OC Community Resources' (OCCR) fee-generated revenue process for the year ended September 30, 2021.
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RESULTS	<ul style="list-style-type: none">• We concluded that OCCR's internal control over fee studies and the fee development process is generally effective.• We concluded the fee-generated revenue process is generally efficient.
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RISKS IDENTIFIED	As a result of our findings, potential risks include: <ul style="list-style-type: none">• Inconsistent practices resulting in errors and/or duplicated efforts.• Lost revenue from under-recovery of actual costs.
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NUMBER OF RECOMMENDATIONS	Opportunities for enhancing internal control include: <ul style="list-style-type: none">• Updating internal policy and procedures over the fee development process.• Establishing fee revision time-cycles.
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0	CRITICAL CONTROL WEAKNESSES
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0	SIGNIFICANT CONTROL WEAKNESSES
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2	CONTROL FINDINGS
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Report suspected fraud, or misuse of County resources by vendors, contractors, or County employees to 714.834.3608



INTERNAL AUDIT DEPARTMENT

Audit No. 2112

September 15, 2022

To: Dylan Wright
OC Community Resources Director

From: Aggie Alonso, CPA, CIA, CRMA
Internal Audit Department Director

Subject: Internal Control Audit: OC Community Resources Fee-Generated Revenue

We have completed an internal control audit of the OC Community Resources' (OCCR) fee-generated revenue process for the year ended September 30, 2021. Details of our results and recommendations immediately follow this letter. Additional information including background and our objectives, scope, and methodology are included in Appendix A.

OCCR concurred with all our recommendations and the Internal Audit Department considers management's response appropriate to the recommendations in this report.

We will include the results of this audit in a future status report submitted quarterly to the Audit Oversight Committee and the Board of Supervisors. In addition, we will request your department complete a Customer Survey of Audit Services, which you will receive shortly after the distribution of our final report.

We appreciate the courtesy extended to us by OCCR's personnel during our audit. If you have any questions regarding our audit, please contact me at 714.834.5442 or Assistant Director Scott Suzuki at 714.834.5509.

Attachments

Other recipients of this report:

- Members, Board of Supervisors
- Members, Audit Oversight Committee
- OC Community Resources Distribution
- Auditor-Controller Distribution
- Foreperson, Grand Jury
- Robin Stieler, Clerk of the Board
- Eide Bailly LLP, County External Auditor

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RESULTS

BUSINESS PROCESS & INTERNAL CONTROL STRENGTHS

Business process and internal control strengths noted during our audit include:

- ✓ OCCR Budget manages a Fee Inventory Listing noting details such as each fee's cost recovery percentage and current authority (e.g., Board Resolution, statute), which is shared with the CEO Budget office annually.
- ✓ OCCR collaborates with the Auditor-Controller's Cost, Revenue, and Budget (A-C/CRB) unit to select an appropriate fee development methodology and resolve potential fee calculation inquiries.
- ✓ OCCR Accounting uses job numbers and department object codes to track actual costs incurred by fee type, which is essential to accurately calculate fee rates.
- ✓ OCCR compares viable fee methodologies to maximize cost recovery for the County. For example, OCCR analyzed the market rate of related fee types and compared it to full cost recovery fee rates calculated by the A-C/CRB unit during the 2017 OC Parks fee revision to identify the best methodology for park fees.
- ✓ OCCR retains documentation of attempted fee study revisions calculated by the A-C/CRB unit, indicating that they periodically attempt to increase cost recovery.
- ✓ The OC Parks fee schedule is accessible via OCCR's public website.

FINDING NO. 1

Internal Policy and Procedures

Certain fee development policy and procedures were not current or lacked specificity.

While OCCR has documented internal department policy and procedures, they are out of date and lack details on current practices, such as the distinction between OCCR and A-C/CRB responsibilities, and required versus best practices.

CATEGORY

Control Finding

RISK

Inconsistent practices resulting in errors and inefficiencies, and duplicated efforts between involved County departments.

RECOMMENDATION

OCCR update its written policy and procedures over the fee development process.



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MANAGEMENT RESPONSE	Concur. OCCR will review its existing fee related policies and procedures and update them for current and best practices, with clarification of its roles and responsibilities as distinguished from other County departments such as Auditor-Controller. This will be done by February 28, 2023.	
FINDING NO. 2	Fee Time-Cycles	
	Fee study revisions are initiated by OCCR/Budget or program management but are not based on a regular time-cycle. We noted revision time-cycles for OC Animal Care and OC Parks fees should be scheduled to re-evaluate cost recovery.	
CATEGORY	Control Finding	
RISK	Lost revenue due to under-recovery of actual costs.	
RECOMMENDATION	OCCR implement a fee revision time-cycle to maximize cost recovery goals and ensure current program activities are captured in the fee calculation.	
MANAGEMENT RESPONSE	Concur. OCCR will implement a comprehensive time-cycle to (1) assess the need for updates to fees and (2) make appropriate updates to fees. This evaluation will ensure cost recovery is maximized and program activities are captured in the fee calculations. This will be done by February 28, 2023.	
AUDIT TEAM	Scott Suzuki, CPA, CIA, CISA, CFE Michael Dean, CPA, CIA, CISA Zan Zaman, CPA, CIA, CISA Gabriela Cabrera Stephany Pantigoso Mari Elias, DPA	Assistant Director Senior Audit Manager Audit Manager Senior Auditor Senior Auditor Administrative Services Manager



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APPENDIX A: ADDITIONAL INFORMATION

OBJECTIVES	<p>Our audit objectives were to:</p> <ol style="list-style-type: none">1. Evaluate the effectiveness of internal control over fee studies and fee development processes for establishing cost recovery fees charged to the public.2. Review the fee-generated revenue process for efficiency.
SCOPE & METHODOLOGY	<p>Our audit scope was limited to internal control over OCCR's fee development process and cost recovery of charges for the year ended September 30, 2021. Our methodology included inquiry, observation, and examination of documentation.</p>
EXCLUSIONS	<p>Our audit scope did not include a review of controls over fees charged to other County departments nor fees set by law. We did not review the County Executive Office, Auditor-Controller, or Board of Supervisors' monitoring process of fee studies. We also did not include a review of controls over the cash receipts process.</p>
PRIOR AUDIT COVERAGE	<p>An audit with similar scope, Internal Control Audit: OC Community Resources Fee-Generated Revenue for the period July 1, 2011 through June 30, 2012, Audit No. 1222, was issued on March 5, 2013.</p>
BACKGROUND	<p>OCCR collects fee-generated revenue for public services offered by OC Animal Care, OC Parks, and OC Public Libraries. The respective service area's Budget and Program personnel are responsible for directing fee developments, justifying cost assumptions, and deciding cost recovery goals before collaborating with the Auditor-Controller's Cost, Revenue, and Budget (A-C/CRB) unit on the fee study calculations.</p> <p>The fee study collaborative process includes documenting cost assumptions and fee methodologies, as well as identifying fee development limitations. OCCR retains full accountability for fee approvals, while CRB is responsible for the accuracy of the fee study calculations.</p> <p>Fee developments target maximum allowable cost recovery of actual costs provided to the public. Since periodic fee revisions are not required, OCCR considers external factors that may impact their efforts to increase fees up to actual cost recovery (e.g., the public's ability to adjust to fee increases). OCCR typically dedicates staff resources towards the fee study process when an increase appears viable.</p> <p>OCCR's fee-generated revenue consists of approximately 120 fees, approved by four legal authorities, as outlined in Appendix B.</p>



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PURPOSE & AUTHORITY	We performed this audit in accordance with the FY 2021-22 Audit Plan and Risk Assessment approved by the Audit Oversight Committee (AOC) and Board of Supervisors (Board).
FOLLOW-UP PROCESS	<p>In accordance with professional standards, the Internal Audit Department has a process to follow-up on its recommendations. A first follow-up audit will generally begin six months after release of the initial report.</p> <p>The AOC and Board expect that audit recommendations will typically be implemented within six months or sooner for significant and higher risk issues. A second follow-up audit will generally begin six months after release of the first follow-up audit report, by which time all audit recommendations are expected to be implemented. Any audit recommendations not implemented after the second follow-up audit will be brought to the attention of the AOC at its next scheduled meeting.</p> <p>A Follow-Up Audit Report Form is attached and is required to be returned to the Internal Audit Department approximately six months from the date of this report in order to facilitate the follow-up audit process.</p>
MANAGEMENT'S RESPONSIBILITY FOR INTERNAL CONTROL	In accordance with the Auditor-Controller's County Accounting Manual 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 internal controls is the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control – Integrated Framework. Our Internal Control Audit enhances and complements, but does not substitute for department management's continuing emphasis on control activities and monitoring of control risks.
INTERNAL CONTROL LIMITATIONS	Because of inherent limitations in any system of internal control, 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 the department's operating procedures, accounting practices, and compliance with County policy.



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APPENDIX B: ADDITIONAL INFORMATION

Table 1. Fees Set by Individual Legal Authority

Fee Type	Fee Description	Legal Authority	Approval Date	Cost Recovery Percentage
OC Parks Fees	Various	Board Resolution #13-084	8/20/2013	N/A
OC Public Library Fees	Various	Board Resolution #18-039	05/08/2018	5% - 500% ¹
OC Animal Care Fees	Various	Board Resolution #18-072	07/17/2018	14% - 100%
Loan Monitoring Fees	Fees collected from borrowers (developers) for monitoring of County affordable housing loans including compliance reviews.	County's Permanent Supportive Housing Notice of Funding Availability (Section 2.14.10)	12/17/2019	100%

Source: OC Community Resources FY 20-21 Fee Inventory Listing

¹ Two fees were listed over 100% cost recovery. The library fee for printing is set at 15 cents (500% cost recovery) and the library fee for a collection agency referral is \$15 (157% cost recovery).



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APPENDIX C: FINDING TYPE CLASSIFICATION

Critical Control Weakness	Significant Control Weakness	Control Finding
These are audit findings or a combination of audit findings that represent critical exceptions to the audit objective(s) and/or business goals. Such conditions may involve either actual or potential large dollar errors or be of such a nature as to compromise the department's or County's reputation for integrity. Management is expected to address Critical Control Weaknesses brought to its attention immediately.	These are audit findings or a combination of audit findings that represent a significant deficiency in the design or operation of internal controls. Significant Control Weaknesses require prompt corrective actions.	These are audit findings concerning the effectiveness of internal control, compliance issues, or efficiency issues that require management's corrective action to implement or enhance processes and internal control. Control Findings are expected to be addressed within our follow-up process of six months, but no later than twelve months.



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APPENDIX D: OC COMMUNITY RESOURCE'S MANAGEMENT RESPONSE



DYLAN WRIGHT
DIRECTOR
OC COMMUNITY RESOURCES

CYMANTHA ATKINSON
ASSISTANT DIRECTOR
OC COMMUNITY RESOURCES

JULIE LYONS
DIRECTOR
ADMINISTRATIVE SERVICES

ANDI BERNARD
DIRECTOR
OC ANIMAL CARE

JULIA BIDWELL
DIRECTOR
OC HOUSING & COMMUNITY DEVELOPMENT

RENEE RAMIREZ
DIRECTOR
OC COMMUNITY SERVICES

TOM STARNES
DIRECTOR
OC PARKS

JULIE QUILLMAN
COUNTY LIBRARIAN
OC PUBLIC LIBRARIES



September 7, 2022

Aggie Alonso, CPA, CIA, CRMA
Internal Audit Department Director

Dear Mr. Alonso:

RE: DRAFT INTERNAL AUDIT REPORT NO. 2112

On August 2, 2022, OC Community Resources (OCCR) received a copy of the Internal Audit Department's draft report for Audit No 2112 (Audit). Below please find OCCR's response to the audit findings and recommendations, which have been reviewed and approved by the County Executive Office.

Finding No. 1: Internal Policy and Procedures (Control Finding)

Recommendation:

OCCR update its written policy and procedures over the fee development process.

Management Response:

Concur. OCCR will review its existing fee related policies and procedures and update them for current and best practices, with clarification of its roles and responsibilities as distinguished from other County departments such as Auditor-Controller. This will be done by February 28, 2023.

Finding No. 2: Fee Time-Cycles (Control Finding)

Recommendation:

OCCR implement a fee revision time-cycle to maximize cost recovery goals and ensure current program activities are captured in the fee calculation.

Management Response:

Concur. OCCR will implement a comprehensive time-cycle to (1) assess the need for updates to fees and (2) make appropriate updates to fees. This evaluation will ensure cost recovery is maximized and program activities are captured in the fee calculations. This will be done by February 28, 2023.

If you have any questions related to this response, please contact James Dinwiddie at 714-480-2889.

Sincerely,


Dylan Wright, Director
OC Community Resources


Date

OFFICE OF THE DIRECTOR
COUNTY ADMINISTRATION SOUTH
601 N. ROSS STREET, 6TH FLOOR
SANTA ANA, CA 92701
PHONE: 714.480.2788
FAX: 714.480.2899

