



INTERNAL AUDIT DEPARTMENT



Internal Control Audit: Health Care Agency's Fee-Generated Revenue

For the Year Ended May 31, 2019

Audit No. 1915
Report Date: March 23, 2020

Number of Recommendations

0

**Critical Control
Weaknesses**

0

**Significant Control
Weaknesses**

2

Control Findings

OC Board of Supervisors

CHAIRWOMAN MICHELLE STEEL
SECOND DISTRICT

VICE CHAIRMAN ANDREW DO
FIRST DISTRICT

SUPERVISOR DONALD P. WAGNER
THIRD DISTRICT

SUPERVISOR DOUG CHAFFEE
FOURTH DISTRICT

SUPERVISOR LISA A. BARTLETT
FIFTH DISTRICT



INTERNAL AUDIT DEPARTMENT

Internal Control Audit:
Health Care Agency's Fee-Generated Revenue

March 23, 2020

AUDIT HIGHLIGHTS

SCOPE OF WORK	Perform an internal control audit of Health Care Agency's (HCA) fee-generated revenue process for the year ended May 31, 2019.						
RESULTS	<ul style="list-style-type: none"> We concluded that HCA's internal control over fee studies and the fee development process is generally effective. We concluded that the fee-generated revenue process is generally efficient. 						
RISKS IDENTIFIED	<p>As a result of our findings, potential risks include:</p> <ul style="list-style-type: none"> Inefficiencies with fee tracking. Inconsistent update of fee rates. 						
<p>NUMBER OF RECOMMENDATIONS</p> <table border="1" data-bbox="99 1213 391 1516"> <tr> <td data-bbox="99 1213 201 1318">0</td> <td data-bbox="201 1213 391 1318">CRITICAL CONTROL WEAKNESSES</td> </tr> <tr> <td data-bbox="99 1318 201 1423">0</td> <td data-bbox="201 1318 391 1423">SIGNIFICANT CONTROL WEAKNESSES</td> </tr> <tr> <td data-bbox="99 1423 201 1516">2</td> <td data-bbox="201 1423 391 1516">CONTROL FINDINGS</td> </tr> </table>	0	CRITICAL CONTROL WEAKNESSES	0	SIGNIFICANT CONTROL WEAKNESSES	2	CONTROL FINDINGS	<p>Opportunities for enhancing internal control include:</p> <ul style="list-style-type: none"> Tracking fee adjustment updates. Developing fee time-cycles.
0	CRITICAL CONTROL WEAKNESSES						
0	SIGNIFICANT CONTROL WEAKNESSES						
2	CONTROL FINDINGS						

Report suspected fraud, or misuse of County resources by vendors, contractors, or County employees to 714.834.3608



INTERNAL AUDIT DEPARTMENT

Audit No. 1915

March 23, 2020

To: Richard Sanchez, Director
Health Care Agency/Public Guardian

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

Subject: Internal Control Audit: Health Care Agency's Fee-Generated Revenue

We have completed an Internal Control Audit of the Health Care Agency's (HCA) fee-generated revenue process for the year ended May 31, 2019. 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.

HCA concurred with all our recommendations and the Internal Audit Department considers HCA's management 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 HCA'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
- CEO Distribution
- Health Care Agency Distribution
- Auditor-Controller Distribution
- Foreperson, Grand Jury
- Robin Stieler, Clerk of the Board of Supervisors
- Eide Bailly LLP, County External Auditor

INTERNAL AUDIT DEPARTMENT

RESULTS

BUSINESS PROCESS & INTERNAL CONTROL STRENGTHS	<p>Business process and internal control strengths noted during our audit include:</p> <ul style="list-style-type: none"> ✓ The HCA Fees Group involves Program and Accounting in the planning stages of fee development to address items such as methodology and changes in legislation that may affect fee study costs. ✓ HCA uses the Fee Study Checklist form, which clearly documents the fee's legal authority and Proposition 26 compliance. Proposition 26 is a constitutional amendment that includes a definition of what constitutes a local tax. Taxes require voter approval, while a fee may be adopted by a majority vote of the Board of Supervisors. ✓ Staff document California Environmental Quality Act (CEQA) compliance on Agenda Staff Reports (ASR) and Board of Supervisors (Board) Resolutions, as required. ✓ HCA has written policy and procedures for the fee study process. ✓ HCA's notifications to external groups impacted by fee changes are documented in the Fee Study Checklist and related notices are attached with the ASR submitted for Board approval. ✓ HCA assigns unique job numbers to each distinguished fee to track costs for future fee reviews and developments.
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FINDING NO. 1	<p>Fee Study Tracking & Updates</p> <p>The HCA Fees Group internally developed an HCA Fee Inventory spreadsheet that lists approximately 330 fees. However, the spreadsheet does not track annual fee adjustments.</p> <p>In addition, one fee study tested contained a fee that was not adjusted accordingly/appropriately.</p>
CATEGORY	<p>Control Finding</p>
RISK	<p>The County may lose revenue to cover the cost of providing services.</p>
RECOMMENDATION	<p>HCA management ensure annual fee adjustments are tracked.</p>



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MANAGEMENT RESPONSE	Concur. HCA will update the HCA Fee Inventory spreadsheet to include all approved annual fee adjustments by July 31, 2020. The responsibilities of the HCA Fee and Rate Study Liaison and HCA Program Staff will be updated to include follow-up tasks to ensure annual fee adjustments are implemented.
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FINDING NO. 2	<p>Fee Time-Cycles</p> <p>Fee rates are periodically reviewed by the HCA Fees Group and tracked on the HCA Fee Inventory spreadsheet, but several fee studies are not currently updated.</p> <p>HCA considers multiple factors, such as limited staff resources, low priority, and whether the fee study is economically efficient before proceeding with fee study revisions. Thus, fees are not necessarily revised every review period.</p>
CATEGORY	Control Finding
RISK	Rising costs of services may not be factored into the fee rate. As a result, an outdated fee rate may not fully recover the current cost of providing the service.
RECOMMENDATION	HCA management implement a time-cycle to update fee rates in order to reflect current program practices, goals, and costs.
MANAGEMENT RESPONSE	Concur. HCA will develop and implement a process to better document fee updates by July 31, 2020. This will complement the agency's current system of tracking fee studies on the HCA Fee Inventory spreadsheet. In addition, HCA will develop and implement an internal fee study certification process to record compliance with the time-cycle guidelines.

AUDIT TEAM	Scott Suzuki, CPA, CIA, CISA, CFE Michael Dean, CPA, CIA, CISA Zan Zaman, CPA, CIA Stephany Pantigoso	Assistant Director Senior Audit Manager Audit Manager Senior Auditor
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APPENDIX A: ADDITIONAL INFORMATION

OBJECTIVES	<p>Our audit objectives were to:</p> <ol style="list-style-type: none"> 1. Assess internal control over fee studies and fee development processes for establishing cost recovery fees charged to the public. 2. Ensure business processes are efficient as related to controls over the fee-generated revenue process.
SCOPE & METHODOLOGY	<p>Our audit scope was limited to internal control over HCA's fee development process and cost recovery of charges for the year ended May 31, 2019. 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 Health Care Agency Fee-Generated Revenues, Audit No. 1024, was issued on August 30, 2011.</p>
BACKGROUND	<p>HCA has six service areas: Public Health Services, Behavioral Health Services, Correctional Health Services, Regulatory/Medical Services, HCA Administration, and HCA Public Guardian.</p> <p>HCA fee-generated revenue involves conducting ongoing fee reviews throughout the year to identify the need for fee study revisions. The fee study process includes various staff from HCA service areas to provide input and identify any limitations to the fee development. Auditor-Controller's Cost, Revenue, and Budget unit is responsible for preparing HCA fee calculation worksheets and the narrative report that explains the fee study methodology. Another consideration of fee development is the public's ability to adjust to fee increases.</p> <p>HCA's fee-generated revenue is comprised of approximately 330 fees as outlined in the 11 different legal authorities in Appendix B.</p>



INTERNAL AUDIT DEPARTMENT

PURPOSE & AUTHORITY	We performed this audit in accordance with the FY 2019-20 Audit Plan and Risk Assessment approved by the Audit Oversight Committee (AOC) and Board of Supervisors (Board).
PROFESSIONAL STANDARDS	Our audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing issued by the International Internal Audit Standards 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	Board Approval Date	Percent of Cost Recovery
Behavioral Health Services (Alcohol and Other Drug Program)	Various Fees	Resolution #08-130	9/16/2008	4%
Behavioral Health Fees (PC 1000 Drug Diversion Program)	PC 1000 Enrollment Fee	Resolution #17-093	08/08/2017	78%
Behavioral Health Fees (Drinking Driver Program)	Drinking Driver Program Enrollment Fee	Resolution #12-159	10/23/2012	95%
Behavioral Health Fees (Prop 36 SACPA PC1210 Program)	PC1210 Program Enrollment Fee	Resolution #10-192	11/23/2010	N/A
Behavioral Health Services (Drug Medi-Cal Organized Delivery System SUD Rates)	Various Fees	Resolution #17-94065	05/08/2018	48%
Public Health Services (Adult Immunization Program)	Various Fees	Resolution #12-021	2/28/2012	77%
Public Health Services (Medical Marijuana ID Card)	Non Medi-Cal Applicant and Medi-Cal Applicant	Resolution #07-162	9/11/2007	N/A
Public Health Services (Emergency Dental Program)	Various Fees	Resolution #06-167	8/15/2006	10%
Public Health Fees (PH Reference Lab Tests)	Various Fees	Resolution #10-016	2/9/2010	11%
Medical Services Fees (Emergency Medical Services)	Various Fees	Resolution #17-025	02/14/2017	61%
Regulatory and Medical Health Services - Environmental Health Services	Various Fees	Resolution #15-077	07/21/2015	96%

Source: Health Care Agency FY 19-20 Fee Inventory Listing



APPENDIX C: FINDING TYPE CLASSIFICATION

Critical Control Weakness	Significant Control Weakness	Control Finding
<p>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.</p>	<p>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.</p>	<p>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.</p>



APPENDIX D: HEALTH CARE AGENCY'S MANAGEMENT RESPONSE



OFFICE OF THE DIRECTOR

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February 10, 2020

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

SUBJECT: Response – Audit No. 1915: Health Care Agency Fee Generated Revenue

The Health Care Agency (HCA) has received the draft report of the Internal Control Audit of the Health Care Agency Fee Generated Revenue for the year ended May 31, 2019, Audit No. 1915. As requested, the following narrative summarizes the two (2) control findings and responses from HCA's management.

Finding No. 1 – Fee Study Tracking & Updates (Control Finding)

The HCA Fees Group internally developed an HCA Fee Inventory spreadsheet that lists approximately 330 fees. However, the spreadsheet does not track annual fee adjustments.

In addition, one fee study tested contained a fee that was not adjusted accordingly / appropriately.

Recommendation No. 1:

HCA management ensure annual fee adjustments are tracked.

Health Care Agency Management Response No. 1:

Concur. HCA will update the HCA Fee Inventory spreadsheet to include all approved annual fee adjustments by July 31, 2020. The responsibilities of the HCA Fee and Rate Study Liaison and HCA Program Staff will be updated to include follow-up tasks to ensure annual fee adjustments are implemented.

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

Fee rates are periodically reviewed by the HCA Fees Group and tracked on the HCA Fee Inventory spreadsheet, but several fee studies are not currently updated.

HCA considers multiple factors, such as limited staff resources, low priority, and whether the fee study is economically efficient before proceeding with fee study revisions. Thus, fees are not necessarily revised every review period.

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Aggie Alonso, CPA, CIA, CRMA, Director
Response – Audit No. 1915: Health Care Agency's Fee Generated Revenue
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Recommendation No. 2:

HCA management implement a time-cycle to update fee rates in order to reflect current program practices, goals, and costs.

Health Care Agency Management Response No. 2:

Concur. HCA will develop and implement a process to better document fee updates by July 31, 2020. This will complement the agency's current system of tracking fee studies on the HCA Fee Inventory spreadsheet. In addition, HCA will develop and implement an internal fee study certification process to record compliance with the time-cycle guidelines.

The Health Care Agency appreciates the collaborative approach taken by Internal Audit in finalizing the report and the courtesy extended to staff involved. Should you have any further questions, please contact Dee Dee Franks, HCA Financial Services Division Manager, at (714) 834-5363.

Thank you.



Richard Sanchez, Director

RS:jpd

cc: Frank Kim, County Executive Officer
Lala Ragen, Assistant Deputy Chief Operating Officer, County Executive Office
Scott Suzuki, CPA, CIA, CISA, Assistant Director, Internal Audit Department
Michael Dean, Senior Audit Manager, Internal Audit Department
Lilly Simmering, Assistant Director, Health Care Agency
Anna Peters, Director, Administrative Services, Health Care Agency
Dee Dee Franks, Division Manager, Financial Services, Health Care Agency
Cindy Wong, HCA Accounting Manager, Auditor-Controller

