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FINAL CLOSE-OUT SECOND FOLLOW-UP AUDIT

INTERNAL CONTROL AUDIT: HEALTH CARE AGENCY FEE GENERATED REVENUE

AS OF OCTOBER 10, 2012

Our Second Follow-Up Audit found the Health Care Agency fully implemented the one (1) recommendation remaining from our First Follow-Up Audit dated April 2, 2012. During the original audit, Health Care Agency generated approximately \$18.7 million in revenue from Board-approved, cost-recovery fees that are charged to the public for licenses, permits, franchises, and other charges for providing County services.

AUDIT NO: 1228-B ORIGINAL AUDIT NO. 1024

REPORT DATE: OCTOBER 11, 2012

Director: Dr. Peter Hughes, MBA, CPA, CIA Deputy Director: Eli Littner, CPA, CIA Senior Audit Manager: Michael Goodwin, CPA, CIA

RISK BASED AUDITING

GAO & IIA Peer Review Compliant - 2001, 2004, 2007, 2010

AlcPA 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





GAO & IIA Peer Review Compliant - 2001, 2004, 2007, 2010

Providing Facts and Perspectives Countywide

RISK BASED AUDITING

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Certified Information Technology Professional (CITP)

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Certified Fraud Examiner (CFE)

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OC Fraud Hotline (714) 834-3608

Letter from Dr. Peter Hughes, CPA





Audit No. 1228-B October 11, 2012

TO: Mark Refowitz, Director Health Care Agency

FROM: Dr. Peter Hughes, CPA, Director

Internal Audit Department

SUBJECT: Second and Final Close-Out Follow-Up

Internal Control Audit: Health Care Agency Fee Generated Revenue, Original Audit No.

1024, Issued August 30, 2011

We have completed a Second Follow-Up Audit of the Health Care Agency's Fee Generated Revenue process. Our audit was limited to reviewing, as of October 10, 2012, actions taken to implement the **one (1) recommendation** remaining from our First Follow-Up Audit dated April 2, 2012. We conducted this Second 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 Second Follow-Up Audit are discussed in the **OC Internal Auditor's Report** following this transmittal letter. Our Second Follow-Up Audit found the Health Care Agency **fully implemented the one recommendation**. As such, this report represents the **final close-out of the original audit**.

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 3.

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OC Internal Auditor's Report



Audit No. 1228-B October 11, 2012

TO: Mark Refowitz, Director

Health Care Agency

FROM: Dr. Peter Hughes, CPA, Director

Internal Audit Department

SUBJECT: Second and Final Close-Out Follow-Up Audit: Health Care Agency

Fee Generated Revenue, Original Audit No. 1024, Issued August 30, 2011

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Scope of Review

We have completed a Second and Final Close-Out Follow-Up Audit of the Health Care Agency (HCA) Fee Generated Revenue process. Our audit was limited to reviewing, as of October 10, 2012, actions taken to implement the **one (1) recommendation** remaining from our First Follow-Up Audit dated April 2, 2012.

Background

Our original audit evaluated internal controls over fee studies and fee development for establishing cost-recovery fees charged to the public for Licenses, Permits and Franchises and other County services that are subject to Board of Supervisors approval. We also evaluated compliance with the County Accounting Manual revenue policy for preparing fee studies; the impact of Proposition 26 on HCA's fee generated revenue; and determined if the fee generated revenue process is efficient and effective. During the original audit period, HCA generated approximately \$18.7 million in revenue from Board-approved, cost-recovery fees that are charged to the public. The original audit identified one recommendation pertaining to clarification of County revenue policy requirements for submitting updated fee studies to the Board of Supervisors.

Results

Our Second Follow-Up Audit indicated Health Care Agency **fully implemented the one (1) recommendation**. As such, this report represents the final close-out of the original audit.

Based on the Second Follow-Up Audit we conducted, the following is the implementation status of the one original recommendation:

1. <u>Clarification of County Revenue Policy Requirements for Submitting Updated Fee Studies to Board of Supervisors</u> (Control Finding)

HCA consult with the Auditor-Controller and County Counsel to obtain clarification of County revenue policy expectations pertaining to submitting updated fee schedules to the Board of Supervisors.

<u>Current Status</u>: **Implemented.** Our original audit found that certain fee studies were completed and not submitted to the Board based on HCA executive management's decision to instead make internal reductions to estimated program costs to ensure compliance for full cost recovery. We found that HCA executive management made decisions to either not update completed fee studies, defer, or not pursue certain studies for various reasons.

OC Internal Auditor's Report



County Accounting Manual R-3 - Revenue Policy, Requirements & Responsibilities requires all cost recovery revenue rates to be updated at least once each year to reflect current costs or updated no later than every third year if the study cost is excessive; however, the policy does not explicitly require that updated fee schedules resulting in no fee increase be submitted to the Board for approval.

In December 2011, HCA met with staff from Auditor-Controller (A-C) and County Executive Office (CEO) to discuss this issue. Various options were considered for potential revisions to the County Revenue Policy. It was determined that CEO will gather information from all of the County Agencies and Departments regarding the frequency of their fee updates and discuss the issue with the County Executive Officer to obtain his input. Our Second Follow-Up Audit found that the CEO did not request this information from agencies and departments.

During July and August 2012, HCA and HCA Accounting contacted the Auditor-Controller and CEO/Budget about the status of the County Revenue policy revisions. In a response from the Interim Auditor-Controller, clarification was provided to HCA on the current policy requirements. The response also indicated that the Auditor-Controller's office will be updating all of the County Accounting Manual procedures this year. Until then, the policy stands until any revisions to the policy are adopted by the Auditor-Controller. Inquiry between HCA, the CEO/Budget Manager and Interim CEO indicated there was no concern about the current approved Auditor-Controller policy. HCA did not consult with County Counsel because the County Revenue policy is the Auditor-Controller's policy.

Because HCA took actions to clarify the existing revenue policy, we consider this recommendation implemented. As part of their actions taken, HCA proposed the following additions/substitutions to the County Revenue Policy:

- 1. Fee updates shall be conducted at least once every three years if the overall annual revenue generation from the fees is \$100,000 or greater, and at least once every five years if the revenue generation is less than \$100,000.
- 2. Fee updates, when conducted, shall be submitted to the Board for review and approval if changes are recommended or if it has been more than five years since the last Board review regardless of whether changes are recommended.
- Except as in 2 above, fee updates, when conducted, are not required to be submitted to the Board for review and approval if no increase is to be recommended and the CEO concurs.

These suggestions will be communicated to the Auditor-Controller via an *Audit Alert* for consideration when updating the County Accounting Manual procedures.

We appreciate the assistance extended to us by Health Care Agency staff during our Follow-Up Audit. If you have any questions, please contact me directly or Michael Goodwin, Senior Audit Manager at 834-6066.

OC Internal Auditor's Report



Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

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