

Internal Audit Department

O R A N G E C O U N T Y L a r g e s t C o u n t y i n t h e U S A

FINAL CLOSE-OUT

SECOND FOLLOW-UP AUDIT

INTERNAL CONTROL AUDIT: COUNTYWIDE FEE DEVELOPMENT MONITORING PROCESS

ORIGINAL AUDIT No. 2922

AS OF JULY 31, 2011

Our Second Follow-Up Audit found the Auditor-Controller and County Executive Office fully implemented the two (2) remaining recommendations from our original report and one (1) new recommendation from our First Follow-Up Audit, dated December 15, 2010, where we found the Auditor-Controller, County Executive Office, and Clerk of the Board had fully implemented six (6) recommendations. The County Executive Office, Auditor-Controller and Clerk of the Board provide oversight of department/agency fee studies and fee requests submitted to the Board of Supervisors for approval. Fee revenue during the original audit period totaled \$461 million.

AUDIT NO: 1131-A
REPORT DATE: AUGUST 4, 2011

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Deputy Director: [Eli Littner, CPA, CIA](#)
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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



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

Providing Facts and Perspectives Countywide

RISK BASED AUDITING

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OC Fraud Hotline (714) 834-3608



Transmittal Letter



Audit No. 1131-A August 4, 2011

TO: Thomas G. Mauk, County Executive Officer
David E. Sundstrom, Auditor-Controller

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

SUBJECT: **Second and Final Close-Out** Follow-Up
Internal Control Audit: Countywide Fee
Development Monitoring Process, Original
Audit No. 2922, Issued April 20, 2010

We have completed a Second Follow-Up Audit of internal controls over the Countywide Fee Development Monitoring Process. Our audit was limited to reviewing, as of July 31, 2011, actions taken to implement the **two (2) recommendations** from our original audit and **one (1) new recommendation** made during our First Follow-Up Audit. We conducted this Second Follow-Up Audit in accordance with the *FY 11-12 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 that Auditor-Controller and County Executive Office **fully implemented the three remaining (3) recommendations**. **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 5.

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Internal Control Audit: Countywide Fee
Development Monitoring Process
Audit No. 1131-A*

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OC Internal Auditor's Report



Audit No. 1131-A

August 4, 2011

TO: Thomas G. Mauk, County Executive Officer
David E. Sundstrom, Auditor-Controller

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

A handwritten signature in blue ink, reading "Peter Hughes", is placed over the "FROM:" line.

SUBJECT: **Second and Final Close-Out** Follow-Up Audit of Internal Control Audit:
Countywide Fee Development Monitoring Process,
Original Audit No. 2922, Issued April 20, 2010

Scope of Review

We have completed a Second Follow-Up Audit of the Internal Control Audit for the Countywide Fee Development Monitoring Process. Our audit was limited to reviewing, as of July 31, 2011, actions taken to implement the **three (3) recommendations** remaining from our First Follow-Up audit report dated December 15, 2010 (Audit No. 1033-B).

Background

We conducted an internal control audit of the Countywide Fee Development Monitoring Process, which included an evaluation of monitoring and oversight controls; compliance with department and County policies; and evidence of process efficiencies and effectiveness. The **County Executive Office/County Budget Office (CEO), Auditor-Controller Cost, Revenue & Budget (A-C), and Clerk of the Board (COB)** have monitoring and oversight responsibilities over department/agency fee requests submitted for Board of Supervisors' approval. Their oversight responsibilities include ensuring that proposed revenues are related to the services provided and do not exceed the estimated costs of providing the services. During the original audit, County departments/agencies generated **\$461 million in revenue** from non-property tax sources (primarily for licenses, permits, franchises and charges for services) by charging fees to cover the cost of services provided to the public.

The recommendations pertained to CEO and A-C monitoring and oversight of department/agency fee requests; proper completion of *Fee Checklist Forms*; compliance with County fee development policies and procedures; adhering to requirements for *Agenda Staff Report (ASR)* submission; enhancing fee policy for preparing department/agency fee requests and the impact on fee studies in unstable economic times; and maintaining a comprehensive master listing of County Fees.

Results

Our Second Follow-Up Audit indicated the Auditor-Controller and County Executive Office **fully implemented the remaining three (3) recommendations**. This report represents the final close-out of the original audit.

Based on the two Follow-Up Audits we conducted, the following is the implementation status of the nine (9) original recommendations:



1. **Auditor-Controller Receipt of Departmental Fee Studies and Fee Checklist Forms (Control Finding)** Auditor-Controller evaluate ways to ensure they receive all fee studies and *Fee Checklist Forms* timely from departments/agencies in order to fulfill their review responsibilities.

Current Status: **Implemented (First Follow-Up Audit).** A-C Cost, Revenue & Budget issued an email memo to Financial Managers' Forum (FMF) members, and made an announcement at the September 2010 FMF meeting, presenting members with a revised *Fee Checklist Form*. The announcement and memo informed the FMF that the Clerk of the Board will not accept or agendize any ASR for new and/or revised fees without concurrence from both the CEO's office and the Auditor-Controller's office on a completed *Fee Checklist Form*.

We reviewed all new and/or revised fees submitted to the Board of Supervisors between April 20, 2010 and December 7, 2010 (2 fee revision requests). Both new/revised fee packages contained *Fee Checklist Forms* that were signed and reviewed by the CEO and A-C offices with no exceptions. Because of the actions taken and assurance from the Clerk of the Board that no fee requests will be accepted or agendized without proper CEO and A-C approval on the *Fee Checklist Forms*, and no exceptions were noted, we consider this recommendation implemented.

2. **Auditor-Controller Review of Departmental Fee Studies and Fee Checklist Forms (Control Finding)** Auditor-Controller evaluate the appropriate level of review required for fee studies and *Fee Checklist Forms*, document their level of review to comply with CAM R-3 and ensure their reviews of *Fee Checklist Forms* are documented with each submission to the Board of Supervisors.

Current Status: **Implemented (First Follow-Up Audit).** A-C Cost, Revenue & Budget worked with CEO/Budget and modified the *Fee Checklist Form* to document their level of review to comply with County Accounting Manual (CAM) R-3. The *Fee Checklist Form* was modified to add verbiage that the CEO and A-C perform "limited reviews" of the fee data, which CAM R-3 Clause 3.5.2 requires. We noted that the A-C documented their review on both tested *Fee Checklist Forms*. Because the A-C evaluated and documented their level of review, we consider this recommendation implemented.

3. **CEO Review of Fee Checklist Forms (Control Finding)** CEO/Budget ensure it signs all *Fee Checklist Forms* to document their review and approval.

Current Status: **Implemented (First Follow-Up Audit).** CEO/Budget discussed with its staff their policy on reviewing and approving new or revised fees to ensure that all ASRs are reviewed for reasonableness and justification and *Fee Checklist Forms* are signed. Our testing found that CEO/Budget documented their review on the *Fee Checklist Forms* we tested with no exceptions noted. Therefore, we consider this recommendation implemented.



4. Fee Checklist Forms Not Presented to the Board of Supervisors (Control Finding)

The County Executive Office, Auditor-Controller, and the Clerk of the Board jointly ensure that departmental *Fee Checklist Forms* accompany ASRs as required for applicable new and/or revised fees.

Current Status: **Implemented (First Follow-Up Audit).** CEO/Budget, A-C Cost, Revenue & Budget and Clerk of the Board staff discussed how to ensure departmental *Fee Checklist Forms* accompany ASRs for applicable new and/or revised fees. The A-C sent a memo to County financial staff stating that the Clerk of the Board will not accept or agendaize any ASR for a new or revised fee without concurrence from both the CEO's office and the Auditor-Controller's office on the completed *Fee Checklist Form*. Our testing found that both fee revision packages contained *Fee Checklist Forms* were signed and reviewed by the A-C and CEO. Because of the actions taken, we consider this recommendation implemented.

5. Required Information Not in ASRs (Control Finding)

County Executive Office and Clerk of the Board jointly ensure ASRs for new and/or revised fees document the amount of revenue expected to be generated and contain the required CEQA exemption disclosure.

Current Status: **Implemented (First Follow-Up Audit).** CEO/Budget and Clerk of the Board provided reminders to their staff of the requirement for departments/agencies to document the amount of revenue expected to be generated and the required CEQA exemption disclosure. Both fee packages we reviewed contained ASRs that documented the amount of revenue expected and the required CEQA exemption disclosure. No exceptions were noted. Based on the actions taken, we consider this recommendation implemented.

6. Enhancement of Fee Development Policy (Control Finding)

Auditor-Controller, in conjunction with the County Executive Office, take measures to revise CAM No. R-3 to clearly identify the extent of reviews performed on department/agency fee studies and requests submitted for Board approval. Also, the Auditor-Controller and County Executive Office should evaluate whether CAM No. B-2 should be enhanced to include standardized instructions and templates for conducting department/agency fee requests and studies.

Current Status: **Implemented (Second Follow-Up Audit).** Auditor-Controller has revised CAM No. R-3 in draft form and the related Fee Checklist Form to identify the extent of reviews performed on department/agency fee studies and requests submitted for Board approval. In addition, the Auditor-Controller and CEO/Budget evaluated CAM No. B-2 to determine the need for standardized instructions and templates. Some updates were made to CAM No. B-2; however, the outcome was not to revise the existing instructions and exhibits included in the CAM. The Auditor-Controller plans to upload the revised CAMs to its Intranet page by September 30, 2011. Because the Auditor-Controller has evaluated and revised the CAMs to address items noted in the recommendation, we consider this recommendation implemented.



7. **Fee Policy During Economic Downturns** (Control Finding)

Auditor-Controller, in conjunction with the County Executive Office, enhance the fee setting policy to address issues impacting fee setting strategies and calculations of future costs in times of economic instability, specifically in the areas of using prior year cost data, projected merit and general salary increases, and CPI indexes used for establishing fees.

Current Status: **Implemented (Second Follow-Up Audit).** Auditor-Controller has revised CAM No. B-2 in draft form that now includes a statement that, "For new/revised fee requests/studies, all factors should be considered with awareness of current, past, and future economic conditions when calculating future costs (i.e., approved/projected salary and benefits increases, changes in level of services, CPI indexes, historical trends, one-time expenditure, and analysis with comparable counties)." Auditor-Controller plans to upload the revised CAM to its Intranet page by September 30, 2011. Because the Auditor-Controller has revised the CAM to address items noted in the recommendation, we consider this recommendation implemented.

8. **Comprehensive Listing of Fees** (Control Finding)

County Executive Office and Auditor-Controller evaluate whether preparing and maintaining a comprehensive master listing of County fees would be cost-beneficial and a useful management tool for monitoring and oversight of countywide fee development.

Current Status: **Implemented (First Follow-Up Audit).** CEO/Budget has completed a countywide fee inventory and has prepared two documents: (1) *County of Orange Review of County Charges for Services FY 2010-11*; and (2) *County of Orange Review of County Fees Charged to the Public FY 2010-11*. The reports show by department a description of fees; the respective cost basis; whether full cost recovery is being obtained; and comments added by CEO/Budget staff. Because of actions taken to establish and maintain a master listing of fees, we consider this recommendation implemented.

9. **Impact of Proposition 26** (Control Finding)

Auditor-Controller and County Executive Office work with County Counsel to determine the impact of Proposition 26 on the fee setting process, and incorporate any resulting policy changes impacting the fee setting process in CAMs R-3 and B-2. (Note: This was a **new recommendation** resulting from our First Follow-Up Audit.)

Current Status: **Implemented (Second Follow-Up Audit).** Auditor-Controller and CEO worked with County Counsel and determined the impact of Proposition 26, which required some policy changes. As a result, Auditor-Controller has updated CAMs R-3 and B-2 in draft form and the revised CAMs contain the following:

- Policy change to include Proposition 26 requirements and the addition of Proposition 26 to the Authority of the Policy.
- A new section was added (Section 4.4) that requires new ASRs state the proposed fee falls within certain exceptions from the definition of a "tax" (related to Proposition 26).



Also, the Auditor-Controller revised the Fee Checklist Form. The revised Fee Checklist Form states on page 3, "Note 1: California Constitution, Article XII C, section 1 (e), 2(d), (Proposition 26, November 3, 2010) Requires a fee or charge that does not fall within the seven exceptions listed in Proposition 26 is deemed a tax which must be approved by the voter." This was issued to members of the County's Financial Managers' Forum on July 20, 2011. Because CAMs B-2 and R-3 were revised to incorporate the requirements of Proposition 26, we consider this recommendation implemented.

We appreciate the assistance extended by the County Executive Office and Auditor-Controller during our Second Follow-Up Audit. If you have any questions, please contact me directly or Eli Littner, Deputy Director at 834-5899, 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
Bob Franz, Deputy CEO, Chief Financial Officer
Frank Kim, County Budget Officer, CEO/Budget Office
Michelle Aguirre, Administrative Manager, CEO/Budget Office
Shaun Skelly, Chief Deputy Auditor-Controller
Jan Grimes, Director, A-C Central Accounting Operations
Kathy Permenter, Manager, A-C Cost, Revenue & Budget
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