

Internal Audit Department

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

FIRST FOLLOW-UP AUDIT

INTERNAL CONTROL AUDIT: HEALTH CARE AGENCY FEE GENERATED REVENUE

ORIGINAL AUDIT No. 1024

AS OF MARCH 13, 2012

Our First Follow-Up Audit found Health Care Agency in process of implementing the one (1) recommendation made in our original audit report dated August 30, 2011. 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: 1130-G
REPORT DATE: APRIL 2, 2012

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Deputy Director: Eli Littner, CPA, CIA
Senior Audit Manager: Michael Goodwin, 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

Letter from Dr. Peter Hughes, CPA

Transmittal Letter



Audit No. 1130-G April 2, 2012

TO: Mark Refowitz, Interim Director
Health Care Agency

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

SUBJECT: First Follow-Up Internal Control Audit:
Health Care Agency Fee Generated
Revenue, Original Audit No. 1024, Issued
August 30, 2011

We have completed a First Follow-Up Audit of the Health Care Agency's Fee Generated Revenue process. Our audit was limited to reviewing, as of March 13, 2012, actions taken to implement the **one (1) recommendation** from our original audit. We conducted this First 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.

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 the Health Care Agency **in process of implementing** the **one (1) recommendation** made in our original audit report dated August 30, 2011.

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 2.

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Health Care Agency
Fee Generated Revenue
Audit No. 1130-G***

As of March 13, 2012

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OC Internal Auditor's Report



Audit No. 1130-G

April 2, 2012

TO: Mark Refowitz, Interim Director
Health Care Agency

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: First Follow-Up Internal Control Audit: Health Care Agency Fee Generated Revenue, Original Audit No. 1024, Issued August 30, 2011

Scope of Review

We have completed a First Follow-Up Audit of the Health Care Agency (HCA) Fee Generated Revenue process. Our audit was limited to reviewing, as of March 13, 2012, actions taken to implement the **one (1) recommendation** from our original audit.

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 First Follow-Up Audit indicated Health Care Agency is **in process of implementing the one (1) recommendation**. We believe this **one (1) recommendation** is still appropriate and further efforts should be made to fully implement it.

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

1. Clarification of County Revenue Policy Requirements for Submitting Updated Fee Studies to Board of Supervisors (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.

Current Status: **In Process.** 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.

Planned Action:

HCA plans to consult with County Counsel on this issue, once the CEO and A-C have provided their input. Meanwhile, HCA is proposing 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.
3. 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.

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 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:

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Members, Audit Oversight Committee
Thomas G. Mauk, County Executive Officer
Vacant, Deputy CEO, Government & Public Services
Bob Wilson, Assistant Agency Director, HCA
Jeff Nagel, Ph.D., Deputy Agency Director, Finance/Admin. Services, HCA
Janet Holcomb, Manager, Financial and Program Support Services, HCA
Gina Denny, Manager, Revenue Unit, HCA
Foreperson, Grand Jury
Susan Novak, Clerk of the Board of Supervisors