

# Internal Audit Department

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

## AUDIT OF HEALTH CARE AGENCY ENVIRONMENTAL HEALTH DIVISION FY 13-14 FEE STUDY

As of October 31, 2013

The total Health Care Agency/Environmental Health Division cost estimated by the fee study for FY 2013-14 is approximately \$24.4 million, of which approximately \$19.4 million is estimated to be funded by fee-supported programs. The remaining cost is funded by grants, State contracts, and charges for services to other County departments/agencies and other local governmental entities. Our audit tested a sample of the total 220 fees in the fee study based upon the four major programs. The FY 13-14 Fee Study is a three-year fee study covering FYs 13-14, 14-15 and 15-16.

At the request of the Health Care Agency (HCA), we audited the Environmental Health Division FY 13-14 Fee Study to determine if the fee study was based on full cost recovery in compliance with the County Accounting Manual policies and HCA procedures for fee preparation, and if the fee study was mathematically accurate and supported by source documentation. This fee study is a three-year study covering FYs 2013-14, 14-15 and 15-16.

We found that HCA complied with the County policies on full cost estimation, with the exception of setting certain fees at below full cost in FY 13-14. The fee study was mathematically accurate and was supported by source documentation. Our audit scope and objectives did not identify or evaluate alternatives or options to fee increases. As such, this issue remains to be determined by the Board of Supervisors and HCA management.

AUDIT NO: 1327

REPORT DATE: DECEMBER 16, 2013

**Director:** Dr. Peter Hughes, MBA, CPA, CIA  
Senior Audit Manager: Michael Goodwin, CPA, CIA  
Audit Manager: Lily Chin, CPA, CGMA  
Audit Manager: Carol Swe, CPA, CIA

### 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

 ORANGE COUNTY BOARD OF SUPERVISORS'  
**Internal Audit Department**

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

*Providing Facts and Perspectives Countywide*

**RISK BASED AUDITING****Dr. Peter Hughes**

Director

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Certified Internal Auditor (CIA)

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OC Internal Audit Department, visit our website: [www.ocgov.com/audit](http://www.ocgov.com/audit)**OC Fraud Hotline (714) 834-3608**



## Transmittal Letter



**Audit No. 1327 December 16, 2013**

**TO:** Mark Refowitz, Director  
Health Care Agency

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

**SUBJECT:** Health Care Agency Audit of Environmental  
Health Division FY 2013-14 Fee Study

At the request of the Health Care Agency, we completed an audit of the Environmental Health Division FY 2013-14 Fee Study. We performed this audit in accordance with our *FY 2013-14 Audit Plan and Risk Assessment* approved by the Audit Oversight Committee and the Board of Supervisors. Our final report is attached for your review.

Please note we have a structured and rigorous **Follow-Up Audit** process in response to recommendations and suggestions made by the Audit Oversight Committee (AOC) and the Board of Supervisors (BOS). Our **First Follow-Up Audit** will begin at six months from the official release of the report. A copy of all our Follow-Up Audit reports is provided to the BOS as well as to all those individuals indicated on our standard routing distribution list.

The AOC and BOS expect that audit recommendations will typically be implemented within six months and often sooner for significant and higher risk issues. Our **Second Follow-Up Audit** will begin at six months from the release of the first Follow-Up Audit report, by which time **all** audit recommendations are expected to be addressed and implemented. At the request of the AOC, we are to bring to their attention any audit recommendations we find still not implemented or mitigated after the second Follow-Up Audit. The AOC requests that such open issues appear on the agenda at their next scheduled meeting for discussion.

We have attached a **Follow-Up Audit Report Form**. Your department should complete this template as our audit recommendation is implemented. When we perform our first Follow-Up Audit approximately six months from the date of this report, we will need to obtain the completed form to facilitate our review.

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.

As always, the Internal Audit Department is available to partner with your staff so that they can successfully implement or mitigate difficult audit recommendations. Please feel free to call me should you wish to discuss any aspect of our audit report or recommendation. Additionally, we will request your department complete a **Customer Survey** of Audit Services. You will receive the survey shortly after the distribution of our final report.

### ATTACHMENTS

Other recipients of this report are listed on the **OC Internal Auditor's Report** on page 5.

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Environmental Health Division  
FY 2013-14 Fee Study  
Audit No. 1327*

As of October 31, 2013

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Audit No. 1327

December 16, 2013

TO: Mark Refowitz, Director  
Health Care Agency

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

SUBJECT: Health Care Agency Audit of Environmental Health Division  
FY 2013-14 Fee Study

## Audit Highlight

The Environmental Health fees are divided into four main programs: Food & Pool, Hazardous Materials Management (including Medical Waste), Solid Waste, and Water Quality. There are approximately **220 fees** in the fee-supported programs, and the fee schedules are subject to approval by the Board of Supervisors.

The total Environmental Health fee-based program cost estimated by the FY 2013-14 fee study is **\$24.4 million**. This reflects an increase of **\$2.8 million** or 13.3% over the total estimated costs based on the last comprehensive FY 2008-09 fee study.

The average percent fee increases/decreases vary among the four fee programs due to differences in actual costs, inventory changes, number of annual inspections and changes in time values of inspections. In addition, estimates for salary/step increases, new/deleted positions, and other anticipated costs were considered in the three-year fee study.

## OBJECTIVES

At the request of the Health Care Agency (HCA) and in accordance with our *FY 2013-14 Audit Plan and Risk Assessment* approved by the Audit Oversight Committee and the Board of Supervisors, the Internal Audit Department conducted an audit of the Environmental Health FY 2013-14 Fee Study. Our audit included review of the fee study for compliance with the County policies for full cost recovery, for mathematical accuracy and to ensure the fee study is supported by source documentation. This audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing prescribed by the Institute of Internal Auditors as required by California Government Code Section 1236. The objectives of this audit were to:

1. Determine whether cost estimations for the fee study were prepared in compliance with the County Accounting Manual (CAM) Procedures Nos. R-3 – Revenue Policy, Requirements & Responsibilities, and B-2 – Billing Rates and Indirect Costs for full cost recovery.
2. Determine whether fee calculations based on the cost estimations were established in compliance with the CAM Procedures Nos. R-3 and B-2 for full cost recovery.
3. Verify whether the cost estimations and fee calculations are mathematically accurate and are supported by source documentation.
4. Determine whether the fee study methodology was in accordance with County and HCA policies and procedures.

## RESULTS

**Objective #1:** We found that cost estimations included direct and indirect cost components in compliance with the County policies for full cost recovery.

**Objective #2:** We found that recommended fee calculations were set at full cost, except for certain fees that were recommended by HCA to be below full cost for FY 2013-14. Excess prior year revenues are being proposed to reduce the impact of certain significant fee increases.

**Objective #3:** We found that cost estimations and fee calculations were mathematically accurate and were supported by source documentation.

**Objective #4:** We found the fee study methodology was in accordance with County and HCA policies and procedures.



## BACKGROUND

HCA's vision is "Working Together for a Healthier Tomorrow" with a mission dedicated to protecting and promoting the optimal health of individuals, families, and our diverse communities through Partnerships, Community Leadership, Assessment of Community Needs, Planning and Policy Development, Prevention and Education, and Quality Services. HCA's service environment is complex with 180 funding sources and over 200 State and Federal mandates.

### Environmental Health Division

HCA's Environmental Health Division protects public health and promotes the well-being of all County residents, workers, and visitors. *Environmental Health is a regulatory agency enforcing health and safety codes. Environmental Health conducts inspections and issues permits to local businesses. Fees are charged for services provided to the public and are intended to recover the full cost of services, with the exception of fees set by statute.* Examples of services include food protection, hazardous waste regulation, water quality monitoring and pollution prevention.

### Environmental Health Division Fees

Environmental Health fees are divided into four main programs: Food & Pool, Hazardous Materials Management (including Medical Waste), Solid Waste, and Water Quality. There are 220 fees in the programs, and the fee schedules are subject to approval by the Board of Supervisors.

1. **Food and Pool** – This program focuses on the inspection of retail and wholesale food facilities and public pools and spas. FY 13-14 revenue at the current fee rate is **\$12.4 million**.
2. **Hazardous Materials Management** – This program ensures all hazardous wastes and materials generated by Orange County businesses are properly handled, recycled, treated, stored and disposed of. It also regulates the generators of medical waste. FY 13-14 revenue at the current fee rate is **\$5.2 million**.
3. **Solid Waste** – This program ensures solid waste is collected, processed and disposed of properly. HCA Solid Waste regulates municipal landfills, transfer stations and composting facilities by issuing permits, conducting inspections and investigating complaints. FY 13-14 revenue at the current fee rate is **\$172,514**.
4. **Water Quality** – This program protects the public from exposure to contaminated drinking or ocean recreational waters, non-hazardous liquid waste, and ensures wells are constructed to prevent groundwater contamination and safety hazards. FY 13-14 revenue at the current fee rate is **\$725,540**.

### FY 2013-14 Environmental Health Fee Study

The HCA Administrative & Financial Services' Revenue Unit prepared the Environmental Health FY 2013-14 Fee Study. The fee study is a collaboration of Environmental Health, Administrative & Financial Services' Financial & Administrative Program Support, and the Revenue Unit to ensure fees are established for full cost recovery in compliance with departmental and County policies.

This fee study is a three-year study covering FYs 2013-14, 14-15 and 15-16. The costs of services are estimated based on prior year actual costs, with certain adjustments, and the fees are then calculated based on the projected estimated costs. The Revenue Unit prepared schedules detailing cost estimation and proposed fee calculations for the three-year period.

### Cost Estimation Methodology

The cost is comprised of direct and indirect costs. Direct costs include: 1) salaries and wages, 2) employee benefits including retirement and health care, 3) services and supplies, 4) fixed assets, and 5) cost applied credits. Indirect costs include distributed administrative cost and countywide cost allocation plan overhead cost. HCA uses job cost accounting codes designated for Environmental Health programs and administration in order to identify cost by program. HCA begins with the actual expenditures of the most recent completed fiscal year available at the inception of the fee study and adjusts this base year cost by known changes in the cost components that would impact the fee study fiscal year cost.

# OC Internal Auditor's Report



For the FY 2013-14 Environmental Health Fee Study, HCA began with the actual expenditures from FY 2011-12 which was the most recent complete fiscal year available when the fee study began in August 2012. This base year cost was adjusted by known changes that would impact the FY 2013-14 costs. The cost adjustments were salary step/merit increases, employee benefits cost increases, changes in staffing, increases in service cost, and increase in building lease and CWCAP charges.

The cost is estimated for all Environmental Health programs and for administration of the programs. ***The administrative cost is distributed proportionately to the programs on the basis of salaries and employee benefits ratio.*** For FY 2013-14, the total estimated cost for the Environmental Health Division was approximately \$24.4 million, of which \$21 million was the estimated cost for the four major fee-supported programs as shown below. The estimated cost is then distributed to the individual fees within each fee program.

Program	FY 2013-14 Estimated Cost
Food & Pool Program	\$ 13,442,293
Haz. Materials Mgmt Prog	\$ 6,064,890
Solid Waste Mgmt Program	\$ 1,029,588
Water Quality Program	\$ 820,540
<b>Total</b>	<b>\$ 21,357,311</b>

## Fee Calculation Methodology

***HCA uses hourly rate/time value method to calculate the fee for each fee activity.*** The total cost is divided by the total service hours to compute the average hourly rate for each fee program. The average hourly rate is then used to calculate the flat annual fee for each fee activity. The Environmental Health employees use their Envision database system to track time by facility and by category on a daily basis. The time spent (time value) for each fee activity is calculated using a three-year average and is used to compute the annual flat fee. The flat rate annual fee equals time value multiplied by the average hourly rate. The calculated fee is the full cost recovery fee and is typically the recommended fee subject to approval by the Board for fee update.

For FY 2013-14, there were certain calculated fees from the fee study that significantly increased over the current fee in effect. The current fees were based on the fee study from FY 2008-09, which was the last fee update. When comparing the current fee to the calculated fee, significant increases were noted for certain fees. For example, in the Food & Pool Program, the increase from the current fee to the calculated fee ranged from 38% to 492%. For Hazardous Materials Management Program, the percentage increase on certain fees ranged from 24% to 224%. According to HCA, the primary reason for the fee increases is due to a similar rate of increase in the time values since the last fee update. Significant increases in time values over the years may occur due to many factors, such as changes in business practices, regulations, industry standards and trends, unique circumstances related to one or more facilities, and the economy relating to increased business turnover.

## Offset Cost by Carryover Excess Revenue in Fund 13T

To lessen the initial impact of the significant increases on certain fees, HCA used the carryover excess revenue in its Fund 13T to offset some of the fees in the FY 13-14 cost. Fund 13T is a special revenue fund that was established to carryover excess fees collected on Environmental Health fees. Board Resolution No. 13-050 dated June 18, 2013 authorized HCA to carryover excess Environmental Health fee revenue in a HCA Special Revenue Fund, identified as Fund 13T, and the excess fee revenue is to be used only to offset future Environmental Health fee-related expenditures. HCA originally received this Board approval as part of Board Resolution No. 09-070 on June 2, 2009, and it has been included in the subsequent Board Resolutions on Environmental Health fees.

# OC Internal Auditor's Report



With carryover revenue from prior years and the anticipated Hazardous Materials settlement monies anticipated in FY 2013-14, HCA estimated approximately **\$895,000 in carryover revenue** and has applied the amount to offset the four program costs. The anticipated Hazardous Materials settlement monies represent court fines and settlements related to court cases involving entities found to have violated hazardous waste and underground storage tank laws.

Fee Based Program	Carryover Revenue Offset
Food and Pool	\$563,000
Hazardous Materials Management	\$226,000
Solid Waste	\$ 14,000
Water Quality	\$ 92,000
<b>Total</b>	<b>\$895,000</b>

### Exception to the County Policy Noted by Auditors:

To lessen the impact of significant increases on certain fees, HCA judgmentally adjusted down those fees with highest increases in order to end up with a total carryover revenue amount. The fee was adjusted in such a way that the percentage increase in FY 13-14 (the first year) approximately equaled to the percentage increase in FY 14-15 (the second year). **Therefore, the Recommended Fee amount is not full cost recovery for the first year for these fees due to the proposed adjustments.** By the second year, the fees will be for full cost recovery. For FY 13-14 fees, 76 of the total 220 fees (35%) were adjusted the first year as follows:

Program	Number of Fees Adjusted	Range of Fee Increase after Adjustments	Range of Fee Increase before Adjustments
Food and Pool	52	20% to 148.5%	38.1% to 491.9%
Hazardous Materials Management	8	13% to 83%	23.5% to 223.8%
Solid Waste	2	14.5% to 29.5%	25.8% to 60.8%
Water Quality	14	18.5% to 115%	35.6% to 348.5%

### **Two Additional Years Fee Study**

HCA prepared the fee study and fee calculations for two additional years using the same process as described above for FY 14-15 and FY 15-16, with the exception of offsetting cost by Fund 13T carryover revenue. The cost adjustment items applicable to FY 14-15 and FY 15-16 were salary merit increases, employee benefits cost increases based on County's 2012 Strategic Financial Plan, and increase in building lease. Cost of living adjustment was applied to FY 15-16 based on County's 2012 Strategic Financial Plan. HCA used the same time value and total service hours to compute the average hourly rate for FY 14-15 and FY 15-16. The average hourly rate was then used to calculate the flat fee for the two additional years.

### **SCOPE AND METHODOLOGY**

We reviewed the HCA Environmental Health FY 2013-14 Fee Study for compliance with County Accounting Manual procedures for establishing cost-recovery fees charged to the public by:

1. Determining if cost estimations were compliant with County Accounting Manual procedures.
2. Determining if fee calculations were compliant with County Accounting Manual procedures.
3. Verifying the cost estimations and fee calculations are mathematically accurate and supported by source documentation.
4. Determine whether the fee study methodology, including its estimates, projections, and adjustments to costs estimates of projected costs and fees for a three-year period was in accordance with County and HCA policies and procedures.

# OC Internal Auditor's Report



## SCOPE EXCLUSIONS

Our audit scope did not evaluate any information technology or system controls involving Environmental Health Fee Study, budget monitoring controls, cash receipting controls and cash disbursement controls pertinent over the Environmental Health Fees. We did not validate HCA's indirect cost rate plan or the CWCAP rate. We did not audit Environmental Health's controls and processes over facility inventories, inspections, or other operations in respect to the operation of the fee-based programs. Our audit scope and objectives did not identify or evaluate alternatives or options to fee increases. As such, this issue remains to be determined by the Board of Supervisors and HCA management.

## Management's Responsibilities for Internal Controls

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 an entity's internal control structure is the Committee of Sponsoring Organizations (COSO) control framework. Our Internal Control Audit enhances and complements, but does not substitute for HCA's continuing emphasis on control activities and self-assessment of control risks.

## Inherent Limitations in Any System of Internal Control

Because of inherent limitations in any system of internal controls, 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 HCA's operating procedures, accounting practices, and compliance with County policy.

## Acknowledgment

We appreciate the courtesy extended to us by Health Care Agency during our audit. They were uniformly responsive and available. We found them knowledgeable, open and their supporting schedules were well organized, thorough and clear. If we can be of further assistance, please contact me directly or Michael Goodwin, Senior Audit Manager at 834-6066.

## Attachments

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

Members, Board of Supervisors  
Members, Audit Oversight Committee  
Michael B. Giancola, County Executive Officer  
Mark Denny, Chief Operating Officer  
Mike Kerr, Assistant to the Chief Operating Officer  
Richard Sanchez, Deputy Director, Health Care Agency  
David Souleles, Deputy Agency Director, Public Health Services, HCA  
Denise Fennessy, Interim Director, Environmental Health Division, HCA  
Jeff Nagel, Ph.D, Deputy Agency Director, Financial & Administrative Services, HCA  
Janet Holcomb, Division Mgr., Financial/Program Support, Financial & Administrative Svcs., HCA  
Gina Denny, Manager, Revenue Unit, Financial & Administrative Services, HCA  
Foreperson, Grand Jury  
Susan Novak, Clerk of the Board of Supervisors  
Macias Gini & O'Connell LLP, County External Auditor

# Detailed Results, Findings, Recommendations and Management Responses



**Objective #1:** Determine whether cost estimations of the fee study were prepared in compliance with the County Accounting Manual Procedures Nos. R-3 – Revenue Policy, Requirements & Responsibilities, and B-2 – Billing Rates and Indirect Costs for full cost recovery.

## AUDIT STEPS AND RESULTS

To accomplish this objective, we audited the Environmental Health FY 2013-14 Fee Study for full cost recovery expectation. We performed the following audit steps:

- ✓ Held meetings and conducted walkthroughs of the fee study process and procedures with HCA Revenue Unit, Program Support and Environmental Health Program staff.
- ✓ Reviewed the fee study cost components to verify that they include direct and indirect costs in accordance with County Accounting Manual procedures.
- ✓ Reviewed the fee study cost components for completeness and consistency with Environmental Health Requested Budget line-items.
- ✓ On a sample basis, traced base year costs to the County General Ledger or other CAPS+ financial reports to determine fee schedules are accurate, complete and supported.
- ✓ On a sample basis, recalculated and footed fee study spreadsheets to determine completeness and clerical accuracy of the formulas and amounts reported.
- ✓ Reviewed adjustments to the base year costs to see if they were reasonable and supported.

## CONCLUSION

Our audit of fee study procedures and review of cost components found no reportable findings. The cost estimates included direct and indirect cost components as allowed by County policies. Adjustments made to base year costs were reasonable and adequately supported.

**Objective #2:** Determine whether fee calculations based on the cost estimations were established in compliance with the CAM Procedures Nos. R-3 and B-2 for full cost recovery.

## AUDIT STEPS AND RESULTS

To accomplish this objective, we audited the Environmental Health Fee Study for full cost recovery expectation. We performed the following audit steps:

- ✓ Held meetings and conducted walkthroughs of the fee calculation process and procedures with HCA Revenue Unit, Program Support and Environmental Health Division Program staff.
- ✓ Reviewed the fee calculations to determine if they are based on the estimated costs.
- ✓ Reviewed the time value supporting documentation maintained at Environmental Health.

## CONCLUSION

Our audit of fee calculation procedures found no reportable items, except for certain recommended fees for FY 2013-14 that were not full cost recovery (see pages 3-4 for explanation and recommendation below). We did identify some minor instances where there were rounding and decimal point placement issues that impacted certain aspects of the fee study spreadsheets. We reported these to HCA as we discovered them, and HCA made appropriate and timely revisions to the schedules, which we subsequently verified.

Our audit found the estimated cost was the basis to compute the average hourly rate. The average hourly rate was then multiplied by time value to calculate the fee for a specific activity. However, in some instances, the calculated fee was not the recommended fee. HCA judgmentally offset the cost of certain fees with prior year excess revenue to reduce the fee increases.

# Detailed Results, Findings, Recommendations and Management Responses



**Recommendation No.1:** HCA should disclose on the Fee Checklist and the Agenda Staff Report that certain fees have been recommended at below full cost and provide the justification.

## **HCA Management Response:**

**Concur.** HCA will disclose on the Fee Checklist and Agenda Staff Report that certain fees have been recommended at below full cost based on HCA's authority granted by the Board of Supervisors on June 2, 2009, which allows HCA to carry over any excess Environmental Health fee revenue, and to use the excess fee revenue to offset future EH fee-related expenditures. HCA proposed to use this carry over excess revenue to offset specific Environmental Health fee adjustments, and to apply the revenue equitably among the fee-related programs having the highest percentage increases.

**Objective #3:** Verify cost estimations and fee calculations are mathematically accurate and are supported by source documentation.

## **AUDIT STEPS AND RESULTS**

To accomplish this objective, we performed the following audit steps:

- ✓ Recalculated the cost estimation and fee calculation worksheets for mathematical accuracy for the fee programs.
- ✓ Agreed cost adjustment items to supporting documentation.
- ✓ Agreed the fee calculation time value and estimated inventory on a sample basis to source documentation.

## **CONCLUSION**

Our audit of fee study procedures found no reportable findings. Cost estimation worksheets and fee calculation were mathematically accurate and were adequately supported by source documentation. They were readily available, well organized, thorough and clear.

**Objective #4:** Determine whether the fee study methodology was in accordance with County and HCA policies and procedures.

## **AUDIT STEPS AND RESULTS**

To accomplish this objective, we performed the following audit steps:

- ✓ Obtained HCA's fee study policies and procedures and determined that HCA adhered to the policies and procedures for the Environmental Health Fee Study.
- ✓ Reviewed appropriateness of adjustments to the base year costs to see if they were reasonable and supported, including salary step/merit increases, employee benefits cost increases, changes in staffing, increases in service cost, and increase in building lease and CWCAP charges.
- ✓ Agreed cost adjustment items to supporting documentation.

## **CONCLUSION**

Our audit of the fee study procedures for appropriateness of the fee study methodology and adjustments to the base year costs found no reportable findings. HCA adhered to its and County policies and procedures. Adjustments to base year costs appeared to be reasonable, were mathematically accurate and were adequately supported by source documentation.



## ATTACHMENT A: Report Item Classifications

For purposes of reporting our audit observations and recommendations, we will classify audit report items into three distinct categories:

▶ **Critical Control Weaknesses:**

These are Audit Findings or a combination of Auditing 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 their attention immediately.

▶ **Significant Control Weaknesses:**

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.

▶ **Control Findings:**

These are Audit Findings concerning internal controls, compliance issues, or efficiency/effectiveness issues that require management's corrective action to implement or enhance processes and internal controls. Control Findings are expected to be addressed within our follow-up process of six months, but no later than twelve months.



## ATTACHMENT B: Health Care Agency Management Response



*Excellence  
Integrity  
Service*

### COUNTY OF ORANGE HEALTH CARE AGENCY

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December 5, 2013

**TO:** Dr. Peter Hughes, CPA, Director  
Internal Audit Department

**SUBJECT:** Response – Audit of Health Care Agency Environmental Health FY 2013-14  
Fee Study, Audit No. 1327

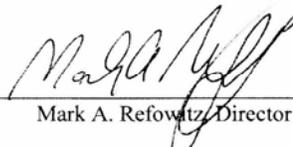
The Health Care Agency (HCA) has received the draft report of the Audit of Health Care Agency Environmental Health Division FY 2013-14 Fee Study, Audit No. 1327. As requested, the following narrative addresses the one recommendation within the audit, and offers a response from HCA.

**Recommendation No. 1** – HCA should disclose on the Fee Checklist and the Agenda Staff Report that certain fees have been recommended at below full cost and provide the justification.

**Health Care Agency Management Response:**

Concur. HCA will disclose on the Fee Checklist and the Agenda Staff Report that certain fees have been recommended at below full cost based on HCA's authority granted by the Board of Supervisors on June 2, 2009, which allows HCA to carry over any excess Environmental Health fee revenue, and to use the excess fee revenue to offset future EH fee-related expenditures. HCA proposed to use this carry over excess revenue to offset specific Environmental Health fee adjustments, and to apply the revenue equitably among the fee-related programs having the highest percentage increases.

HCA appreciates the opportunity to respond to the recommendation. If you need further information, please contact Gina Denny, Manager, HCA Revenue Unit at (714) 834-5470.

  
Mark A. Refowitz, Director

MAR:ek 13-086

cc: Michael B. Giancola, County Executive Officer  
Mark Denny, Chief Operating Officer  
Michael Goodwin, Senior Audit Manager, Internal Audit Department  
Lily Chin, Audit Manager, Internal Audit Department