



Internal Audit Department

O R A N G E C O U N T Y

AUDIT HIGHLIGHT

August 30, 2011

INTERNAL CONTROL AUDIT: HEALTH CARE AGENCY FEE GENERATED REVENUE Audit No. 1024

WHY IS THIS AUDIT IMPORTANT?

The Health Care Agency (HCA) is dedicated to protecting and promoting the optimal health of individuals, families, and communities in Orange County. Within HCA's Financial and Administrative Services, the **Financial and Program Support Services Division and Revenue Unit** are responsible for developing and preparing fee studies of fees charged by HCA. The Revenue Unit regularly reviews and updates cost-recovery fees subject to approval by the Board of Supervisors. During the audit period, HCA had **fourteen fee studies requiring Board approval and received revenue from these fees totaling \$18 million**. In November 2010, **Proposition 26** was passed by California voters. The impact of Proposition 26 to the County is that it expands the definition of a "tax" which classifies some fees and charges as taxes that the government formerly imposed with a simple majority vote. Each fee now needs to be classified based on the new proposition. This audit evaluated if HCA took into consideration the impact of Proposition 26 as part of the fee generated revenue process.

WHAT THE AUDITORS FOUND?

Successes

Our audit found internal controls over HCA's fee generated revenue are adequate, effective, and exemplary in the fact they have a well-structured and documented fee development process. The HCA Revenue Unit has established a comprehensive *Fee Study Procedures and Reference Guide*. Its fee studies are well structured and documented in detail. The HCA Revenue Unit is to be commended for coordinating efforts from Program and Program Support in proposing fees for cost recovery.

Audit Findings and Control Recommendations

Our audit found HCA to be in compliance with County Accounting Manual Nos. R-3 – *Revenue Policy, Requirements & Responsibilities*, and B-2 – *Billing Rates and Indirect Costs*, and has sufficiently addressed the impact of Proposition 26 on the fee development process. However, HCA's ability to adjust fees to recover its program costs has been impacted by the economic downturn and a County political environment that is sensitive to raising fees for providing County services. We identified **one (1) Control Finding** to clarify County revenue policy requirements for submitting updated fee studies to the Board of Supervisors. HCA management agreed with the finding and recommendation.